LATIN AMERICA
SECURITIES FINANCE USER GUIDE 2019

BRAZIL - MEXICO - CHILE - PERU - ARGENTINA - MILA

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EQUILEND

rma® THE RISK MANAGEMENT ASSOCIATION

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EXECUTIVE SUMMARY

Today, Latin America remains a key foreign-investment target with a host of local economies once again on the rebound. Brazil, one of the world's leading economic lights with GDP approaching US$2 trillion according to the World Bank, tops the region and is followed by Mexico (US$1 trillion GDP) along with thriving nations that include Argentina, Colombia, Chile, Peru and Ecuador.

Despite this, Latin America's equity markets remain relatively undercapitalized. Mexico's economy ranks 15th worldwide with GDP exceeding that of Switzerland and the Netherlands yet trails both countries in market capitalization (currently at US$455 billion); similarly, Brazil's GDP outflanks Canada and South Korea, yet it too is dwarfed in size by those markets.

Historians suggest that the political instability and currency crises of the late '90s and beyond have helped slow development in Latin America. However, one need only look to Asia—where countries like Korea and Taiwan have built a thriving securities finance market without compromising risk-management practices—for proof that such challenges can be overcome.

Liquidity is the lifeblood of any stock exchange, of course, and securities finance has historically been key to boosting investor confidence. The good news is that securities borrowing and lending (SBL) programs, as well as related strategies, continue to make progress in Latin America, with key players taking steps to harmonize lending platforms for the benefit of investors and brokers alike.

Brazil has been focused on implementing best practices around securities finance, and is poised to launch its first-ever fixed income market for lending. With the help of the RMA and other industry groups, Mexico has bolstered its global presence in an effort to promote foreign participation, while Peru's revamped lending processes offer participants improved operational transparency. And in Argentina, officials are optimistic that an initial securities lending CCP launched in 2017 will ultimately evolve into a more globally accepted platform.

Coordinated by RMA and EquiLend on behalf of the Latin American market, this first-ever Latin America Securities Finance User Guide looks at the current and future state of Latin American securities finance markets, regional innovations such as the MILA exchange, illustrative market data and much more. We hope this work serves as a quick-reference guide to the region, offering local insights and market expertise for both domestic and global participants.

EquiLend and RMA would like to offer our sincerest appreciation to all the Latin American securities finance market experts who have contributed to this user guide. The information contained in this guide was compiled from publicly available information as well as contributions from domestic and international market participants, exchanges and independent consultants. We welcome any feedback and suggestions. Most of all, we look forward to our continued work with the Latin American securities finance markets and updating this guide yearly as advancements are made across the region.

For any questions, feedback or additional information about the Latin America Securities Finance User Guide, please contact:

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BRAZIL

1 Brazilian Real = *0.26 USD*
As of Dec. 27, 2018

General Market Overview

Exchange Highlights

340	**NUMBER OF COMPANIES LISTED**
25	**COMPANIES WITH LISTED ADRs**
US$950BN	**MARKET CAPITALIZATION**

(Figures from December 5, 2018)

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 different markets over the years. Average daily trading volume was BRL16.4 billion as of October 2018, a significant increase over the prior years.

Equities Market

Average Daily Value Traded (BRL millions)	Jan '10	Jan '11	Jan '12	Jan '13	Jan '14	Jan '15	Jan '16	Jan '17	Jan '18	Oct '18
Cash market	6,341	6,047	5,848	7,047	6,015	6,130	5,018	6,579	9,783	16,422
Forward market	152	145	85	79	81	49	48	67	141	161
Options market	301	282	364	215	129	168	176	226	253	415
TOTAL	6,793	6,474	6,297	7,341	6,224	6,374	5,242	6,872	10,178	16,998

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.

Fixed Income and Currency Derivatives

Average Daily Number of Contracts Traded	Jan '10	Jan '11	Jan '12	Jan '13	Jan '14	Jan '15	Jan '16	Jan '17	Jan '18	Oct '18
Interest rates in BRL	1,134,778	1,937,192	1,636,092	1,560,963	1,851,032	1,253,309	1,563,187	1,347,322	2,153,504	2,055,593
FX rates	524,604	438,164	541,144	474,180	500,127	459,499	455,457	423,337	610,206	821,967
Interest rates in USD	81,611	132,842	166,009	130,801	186,885	251,210	270,702	224,069	258,588	391,587
ADTV Total / Total Derivatives Volume	1,906,175	2,655,532	2,615,170	2,409,674	2,852,458	2,452,042	2,443,562	2,208,814	3,462,878	4,200,026

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.

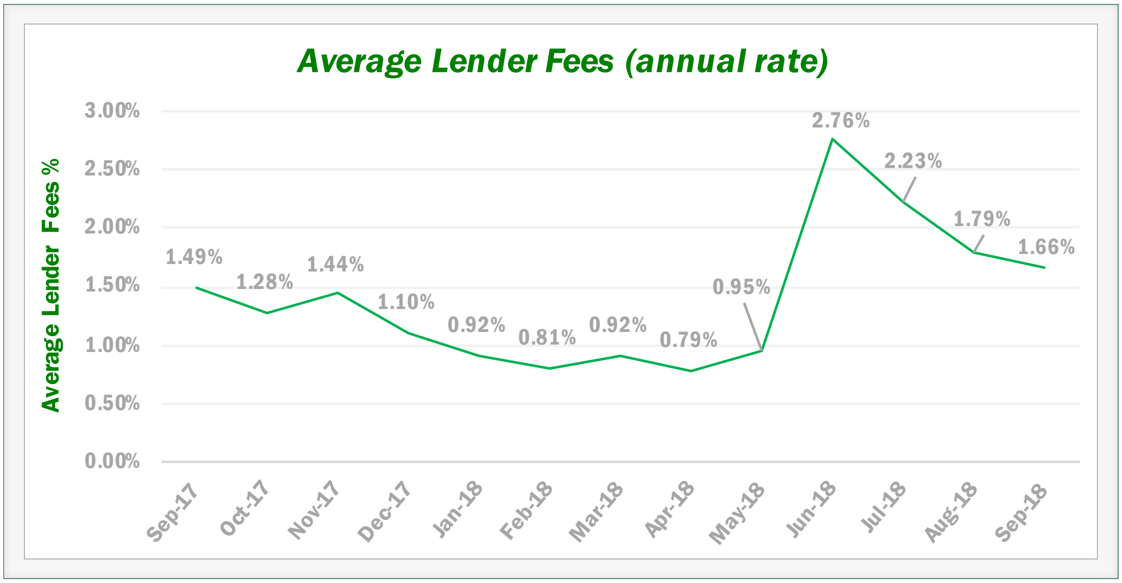
Securities Borrowing and Lending (SBL) Market Size

SBL - Equities

OPEN INTEREST (BRL MILLIONS)

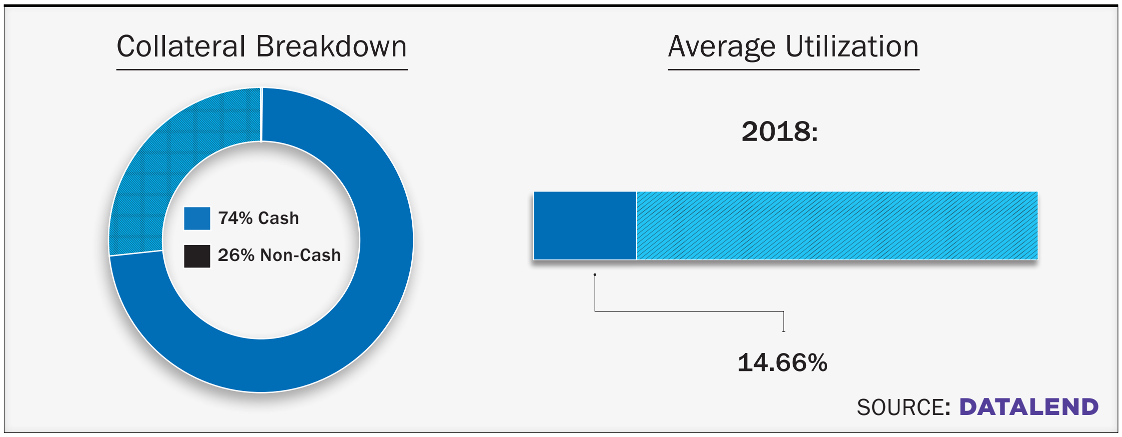
2010	22,162
2011	35,917
2012	41,424
2013	39,224
2014	31,378
2015	34,118
2016	41,017
2017	39,154
2018*	51,592

** THROUGH DECEMBER 5*



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.



Repo Market Size

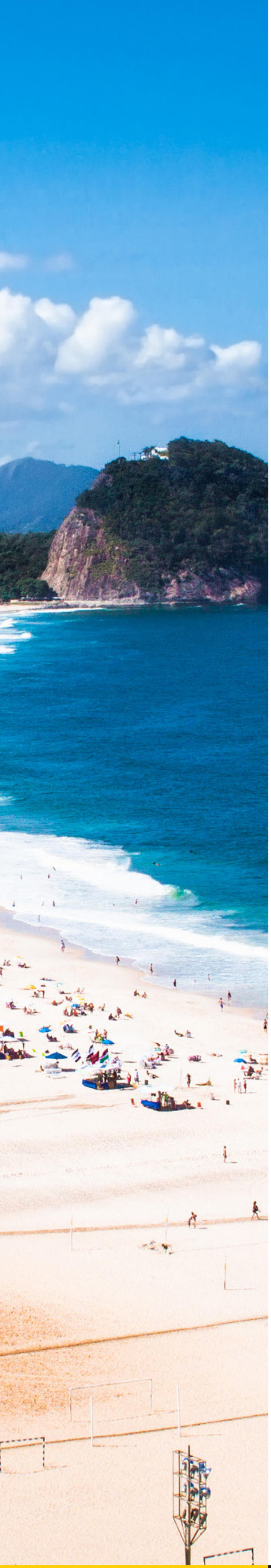
Fixed Income

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 repo services in 2019.

General Securities Lending Market Structure

Securities Lending Model

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 April 2018) – Based on the number of contracts traded: XP, Bradesco, Morgan Stanley, Itau, BTG Pactual

- **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 the 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)
- Unsponsored 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 US 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 which 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 gathered 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 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 the 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 the past year 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 the broker, either 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+3, or T+4 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 is very different 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 Issues

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)
T+0	**0.5%** Limited to BRL 50,000	**0.5%**
T+1	**0.5%** Limited to BRL 50,000	**4.5%**

- Failing sales might get 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. Furthermore, a project is currently underway to change the cash equities settlement cycle to T+2, expected to May 2019.

MEXICO

1 Mexican Peso = *0.051 USD*
As of Dec. 27, 2018

General Market Overview

Exchange Highlights

Mexico's BMV is the second-largest stock exchange in Latin America with a total market capitalization of over US$455 billion. In July, a second exchange, BIVA, was launched as part of the country's effort to boost both domestic and foreign investment.

BMV's main objective is to facilitate the securities-transaction process, as well as continue developing Mexico's financial markets, by fostering expansion and competitiveness through these initiatives:

- Establish the facilities and mechanisms necessary to aid in the relationship of the securities supply and demand, credit certificates and other documents registered at the National Securities Registry (RNV), as well as provide the necessary services for underwriting, offering and the exchange of the aforementioned securities.
- Publish, maintain and provide to the public information regarding the securities listed on the Mexican Exchange and on the International Quotations System (SIC), and more specifically, information regarding its issuers as well as executed transactions.
- Provide adequate oversight of the market to ensure the transactions held at the BMV comply with applicable legislation.

- Issue regulation that sets standards and operative and conduct guidelines to promote fair and equitable market practices in the securities market; provide oversight and impose disciplinary and corrective measures in cases where brokerage firms and/or issuers fail to comply with their obligations.

Exchange Highlights

348	NUMBER OF COMPANIES LISTED (EQUITY)
294	NUMBER OF COMPANIES LISTED (DEBT)
1,563	NUMBER OF COMPANIES LISTED (GLOBAL - INTERNATIONAL QUOTATION SYSTEM)
3%	WITH ADRs / GDRs (68 COMPANIES)

(Figures from May 2018)

Equities

The National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, CNBV) is the main regulator for Mexico's equities market. The legislative framework is composed of various laws applicable to stock exchange operations:

- The Securities Market Law
- General regulations applicable to issuers of securities and other participants of exchange markets (issued by the CNBV)
- General regulations applicable to the stock exchange (issued by the CNBV)
- General regulations applicable to broker-dealers (issued by CNBV)

The exchanges offer listing services to both foreign and domestic companies wishing to raise capital from a primary listing. The International Quotation System is also managed by the stock exchange, and supports the electronic trading of foreign shares on the Mexican bourse.

Mexico's market valuation of approximately US$455 billion is disproportionally small compared to the size of its economy, as in other Latin American countries. This is due in part to relatively low investor participation, real investors allocating funds to foreign markets, as well as other factors.

Fixed Income

Government bonds:

- Domestic investors US$227.29 billion
- Foreign investors US$108.68 billion
- Corporate bonds US$85.63 billion

Securities Borrowing and Lending (SBL) Market Size

Equities

Equities estimated at US$250 million (source: BMV)

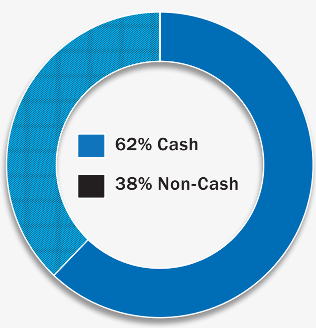
Fixed Income

Fixed income estimated at US$7.8 billion (source: BANXICO and MEIPresval)

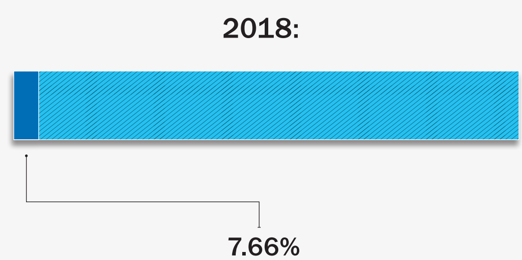
Current Volumes and Fees

EQUITY	FIXED INCOME
AVERAGE FEE 325 BPS	AVERAGE FEE 24 BPS

Collateral Breakdown



Average Utilization



SOURCE: **DATALEND**

Repo Market Size

Fixed Income

Repo is generally used by treasuries investing cash surpluses, with primary participants including credit institutions and brokerage houses acting as either lenders or borrowers. According to Banco de Mexico, on a monthly basis the market handles some 110,000 transactions with an average monthly value of US$15.4 million.

General Securities Lending Market Structure

Securities Lending Model

Participants can access the market using local bilateral agreements or through electronic platforms VALPRE and MEIPresval. Other platforms may enter the market after obtaining prior authorization from the CNBV.

Loan transactions must be executed through a local broker via VALPRE or MEIPresval, and can be booked for same-day settlement, T+1 or T+2.

Collateral must be Mexican-denominated securities or pesos and is held in Indeval in the name of the lending local broker when using VALPRE, or via a trust when using MEIPresval.

Market Participants and Their Roles and Responsibilities

Number of Local Players – Agents – Buy side, 31 participants

Number of Local Players – Brokers – Sell side, 36 participants

Largest Players – Pension funds, insurance companies

- **Brokers:** Brokers facilitate securities lending transactions by acting as intermediary with individuals and/or institutional investors. All parties sign an agreement that sets forth the terms of the loan including duration, fees and collateral. On the other hand, banks are enabled as market makers (appointed by the Ministry of Finance) to participate in the fixed-rate government securities market. These institutions are requested to present a minimum amount of bids in each primary auction, depending on the type of security they are working with as market maker. In order to facilitate the purchase of fixed income securities, all market makers have access to a securities lending facility directly with the central bank. Such loans may be renewed for as long as needed and up to two days before the maturity of the security.
- **Agents:** Most broker-dealers act as agents of their financial group's pension funds.
- **Local suppliers:** i.e. beneficial owners. Includes Mandatory Pension Funds ("Afores"), pension funds, mutual funds, retail and insurance companies.
- **Exchange:** The Mexican Stock Exchange (BMV) is not involved in any of the transactions carried out for securities lending.
- **Central banks:** The Central Bank of Mexico provides a securities lending facility only accessible to market makers. Each participant has signed an agreement with the central bank that describes the duties and obligations of both parties as well as the procedures for collateral management. The average term for securities lending transactions is one working day and may be renewed on a daily basis.
- **Regulators:** Banco de México (Central Bank) has specific rules governing lending transactions by credit institutions, securities firms, investment companies, and both rural financial institutions and development banks. Additionally, the National Banking and Securities Commission (CNBV) has issued general provisions that apply to brokerage firms that engage in securities loans.

- **Trading platforms:** VALPRE and MEIPresval are authorized by regulators for local lending activity.

Securities Eligible for Shorting/Borrowing

Participants may engage in securities lending operations through proprietary and/or third-party accounts, using authorized stocks/securities (i.e., those classified as high, medium or low liquidity issues) registered in the National Register of Securities (Registro Nacional de Valores) or in the International Quotation System (SIC) and deposited in Indeval. Borrowers must obtain authorization from the National Banking and Securities Commission prior to engaging in securities lending transactions involving "minimum liquidity stocks" as well as those without classification.

Collateral Requirements

Collateral requirements are established through bilateral agreements, based on rules specific to each trading platform. The minimum collateral requirement is 102%. More than 90% of local securities lending trades are handled through an electronic trading platform, with collateral deposited into a segregated account in Indeval, or held in trust using a custody or execution-only mandate.

Securities Lending Legal Structure

The securities lending laws and rules are defined by the central bank, Banco de México, and are contained in the Reglas a las Que Deberán Sujetarse las Instituciones de Crédito; Casas de Bolsa; Sociedades de Inversión; Sociedades de Inversión Especializadas de Fondos Para el Retiro y la Financiera Rural, En Sus Operaciones de Préstamo de Valores.

Operational and Post-Trade Structure

General

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

Challenges With the Current Securities Lending Model

External Rules and Regulations

According to Banco de México's securities lending rules, investment companies may act as both lenders or borrowers, but can only operate with credit institutions or securities firms. Additionally, retirement fund management companies (Siefores) may only serve as lenders, and are restricted to fixed income transactions.

Collateral Issues

Collateral must be in Mexican denominated securities or pesos; however, Mexican collateral is not an acceptable form of collateral for many large foreign holders/lenders (including mutual funds). Thus, under the current model, a foreign broker that can provide acceptable collateral to a foreign lender (as well as accept Mexican-denominated securities or pesos from the local borrower) is required. Without direct access to Indeval, the intervening broker has no recourse to the local Mexican counterparty, thereby creating an inherent risk to the foreign counterpart.

Supply Constraints

Despite high demand for borrowed securities, few institutions currently participate in the securities lending market, resulting in reduced supply. On the sell side, the local market is limited due to minimal hedge fund presence, as well as a lack of broker-dealers with active short strategies.

Miscellaneous Challenges

Local participants believe that improving the flow and quality of market information could help bolster Mexico's lending industry.

Synthetics

Synthetic short access for offshore participants is generally limited to MSCI-listed securities (currently 25 out of 141 total). Creating a framework to enable onshore-to-offshore borrow liquidity would likely increase securities lending turnover. Synthetic access is permitted for single stocks and indices and can be done overnight or longer-term dated.

Future Developments

Banco de México has expressed interest in developing the country's securities lending market and continues to explore changes to the current model/regulatory requirements with the goal of encouraging future participation.

CHILE

1 Chilean Peso = *0.0014 USD*
As of Dec. 27, 2018

Note

Chile has a nascent securities finance market. As such, details are scarce. We look forward to working with the Chilean market to encourage the adoption of securities lending best practices and ultimately to increase lending activity.

General Market Overview

Exchange Highlights

121	**NUMBER OF COMPANIES LISTED**
10.4%	**% WITH ADRs / GDRs (25% OF IPSA)**
US$279.64BN	**MARKET CAPITALIZATION**
US$109.03BN	**MARKET CAP FREE FLOAT**

Equities

The Chilean equity market is one of the deepest in Latin America, thanks largely to the participation of numerous offshore interests. The country's foremost exchange is the Bolsa de Comercio, and its main index, the IPSA, consists of 42 stocks. Trading of ADRs and stocks listed on international exchanges is now possible thanks to the MILA consortium.

Fixed Income

The country's fixed income market consists mainly of debt and accounts for a substantial part of the local securities market as a whole. AFPs, mutual funds and offshore (foreign owner) strategies are among the main players within fixed income; currencies include Chilean Pesos (CLP), Chilean Unidad de Fomento (CLF) and to a lesser degree USD.

Tipo	Des	MM USD
BB	BONOS DE BANCOS E INSTITUCIONES FINANCIERAS	59,355
BCP	BONOS BANCO CENTRAL DE CHILE, EN PESOS	4,850
BCU	BONOS BANCO CENTRAL DE CHILE, EN UF	7,772
BE	BONOS DE EMPRESAS	38,176
BH	BONOS HIPOTECARIO	426
BS	BONOS SECURITIZADOS	532
BTP	BONO DE LA TESORERIA GENERAL DE LA REPUBLICA DE CHILE, EN PESOS	25,529
BTU	BONO DE LA TESORERIA GENERAL DE LA REPUBLICA DE CHILE, EN U.F.	32,229
BU	BONOS SUBORDINADOS	10,470
BVL	BONO VIVIENDA LEASING (EMITIDO POR MINVU)	140
CERO	PAGARE AL PORTADOR EXPRESADO Y REAJUSTADO EN UF SIN INTERESES	68
TOTAL		179,548

Exchange Growth Expectations

EPS growth of 25% was expected through 2018. The price target for IPSA is 6000-6200. Three IPOs are expected by the end of 2019.

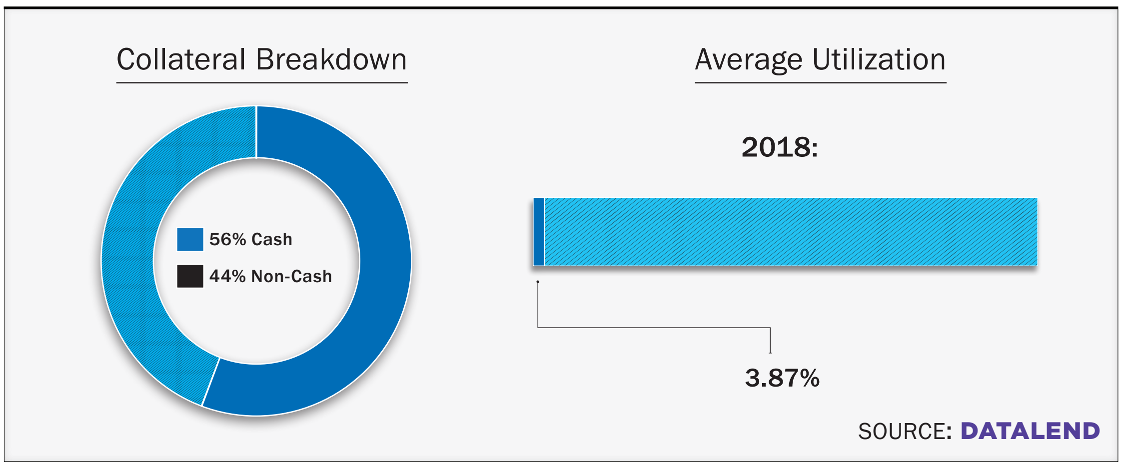
Securities Borrowing and Lending (SBL) Market Size

Equities

Equity lending is permitted for short selling and other general purposes. Trading volume was US$89,207 million as of 2017. Fees are 0.02 bps for AFPs, between 0.05 bps – 0.06 bps for local Institutional clients, 0.15 bps for cash trading, 0.1 bps for family office and 0.3 bps and 0.4 bps for retail and private banking, respectively.

Fixed Income

Not currently available, but is being evaluated by the Comisión para el Mercado Financiero (CMF). Chilean fixed income securities are traded outside the domestic market.



Repo Market Size

Equities

US$32 billion

Fixed Income

US$3 billion

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

Securities finance is considered essential to attracting and fostering new participants and investments within Chile. Equity repo has been particularly attractive for local IPOs as it allows players to adequately support their positions.

Number of Local Players – Agents – N/A

Number of Local Players – Brokers – 27: Larraín Vial, Banchile and BTG for equities; BancoEstado, BBVA, Santander and Banchile for fixed income

Securities Eligible for Shorting/Borrowing

CENCOSUD, CHILE, FALABELLA, CAP, COPEC, COLBUN, ITAUCORP, CONCHATORO, VAPORES, ENTEL, BSANTANDER, ECL, LTM, AESGENER, SALFACORP, PARAUCO, RIPLEY, CMPC, SONDA, BCI, NUEVAPOLAR, CCU and others. The list of securities eligible for shorting is updated quarterly.

Collateral Requirements

- Equity listing by local exchange
- Santiago Exchange: A, B, C
- Electronica Exchange: 1, 2, 3

	Value	Collateral Value	Leverage
List A – 1	80%	25%	4
List B – 2	60%	50%	2
List C – 3	50%	100%	1

Short Seller Market Access

- Must be a qualified client per Chilean regulations
- Must sign the "Contrato de Condiciones Generales Operaciones a Plazo"
- Credit risk line (Internal Banchile), but it should apply for other brokers as well

Settlement Process

Chile operates on a T+2 settlement cycle.

Challenges With the Current Securities Lending Model

Collateral Issues

A collateral deficit (margin call below 25%) must be covered within 14 hours. To close the short, the client must buy back shares and advise that the purpose of the buy is to close the short.

Supply Constraints

Inventory is scarce. The vast majority of the securities outstanding is held by AFPs, but currently, only two of them lend securities.

Miscellaneous Challenges

- Collateral must remain in the name of the exchange, and as such the lender cannot exercise the collateral.
- The lender loses voting rights on the loaned securities.

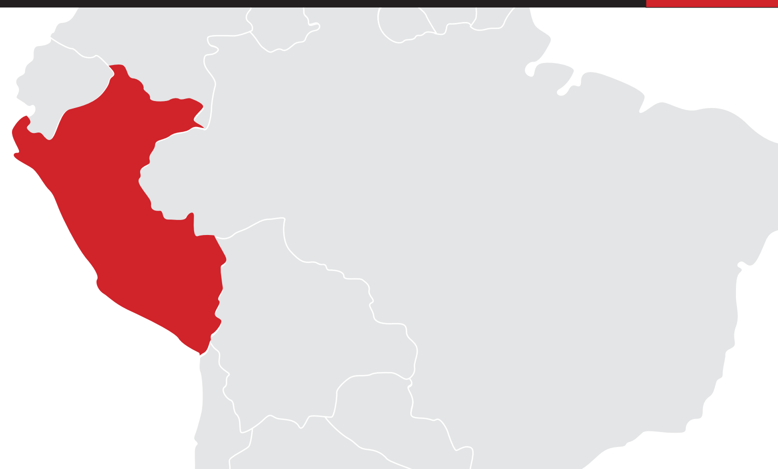
Synthetics

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 and longer-term dated.

Future Developments

It is expected that the market will be implementing blockchain technology to manage contracts in the future.

PERU



1 Peruvian Sol = *0.30 USD*
As of Dec. 27, 2018

Exchange Highlights

277	NUMBER OF COMPANIES LISTED
US$164BN	MARKET VALUE OUTSTANDING
5	COMPANIES WITH ADRs / GDRs, REPRESENTING NEARLY 1/4 OF TOTAL MARKET CAP

(Figures from June 2018)

General Market Overview

Equities

A small emerging market with a US$215 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 63% 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 have provided a stimulus to growth prospects in Peru.

Trading at the Lima Stock Exchange (BVL) reached US$8.9 billion in 2017, while local mutual funds currently manage some US$10 billion and pension funds about US$50 billion. In 2017, trading in equities reached US$25 million on a daily basis, with government debt and FX trading at US$191 million and US$476 million respectively.

Most trading at BVL is cash equities, with materials and financials accounting for the exchange-leading sectors. Most of the 277 listed companies have a small free float, as only around 40 stocks trade regularly on the exchange, according to the S&P/BVL Peru General Index. Total market capitalization is US$168 billion, and the free float of the S&P/BVL Peru General is US$33 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 8.65% with a 19.04% 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. Newer facilities such as market making, however, 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 is working with issuers around the listing of local REITs ("*Fibras*"), and is also developing a new stock-lending mechanism for international investors who wish to short local stocks.

Fixed Income

As of April 2018, Peruvian fixed income totaled US$39 billion, with government debt accounting for 81% and nearly all (97.5%) 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. In 2018, FX and "bonos soberanos" trading averaged US$626 million and US$91 million per day respectively, covering roughly 93% and 35% share of local market liquidity.

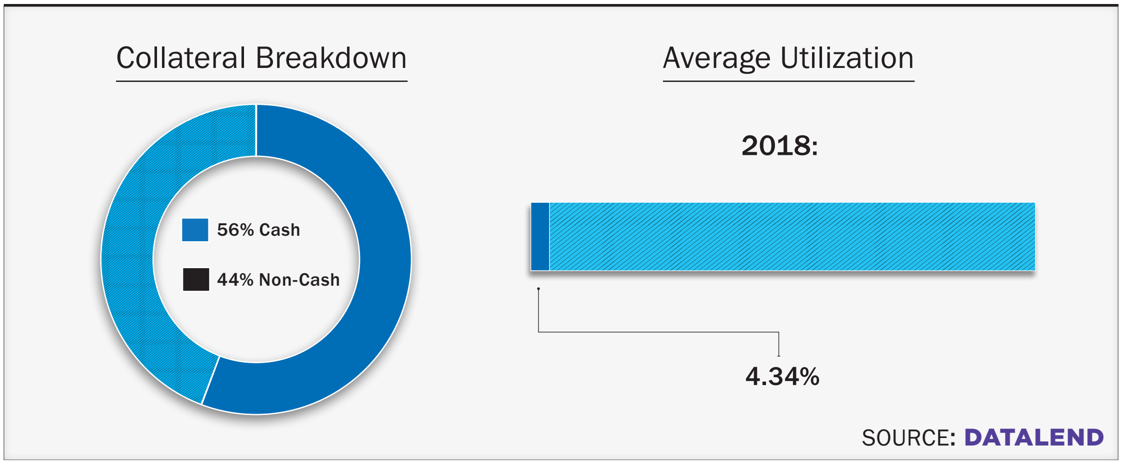
In 2017, the issuance of corporate debt in Peru reached US$2,206 million, which implied an increase of 15% compared to 2016. There were also US$5 billion in 144a/RegS issuances. In the case of the local market, there were 85 issues last year. 55% of the resources were collected by banks and financial institutions, 21% by public services, 13% by diverse institutions, 5% by the agricultural sector and 2% by mining companies. Of the issues made during 2017, 39% corresponded to corporate bonds and 30% were short-term instruments. Finally, 75% was placed in soles, while 25% was in dollars.

The public corporate bond market is small, with average monthly trading volume around US$45 million. Most of the current 74 debt issuers utilize bonds, with all but 5% trading OTC.

Exchange Growth Expectations

Since 2015 annual trading volumes at the exchange have increased 60% and, in coming years, are forecast to grow between 10-15% annually. Excluding price movements, yearly turnover has been approximately 67% as measured by number of shares traded and is expected to increase over the near term as more local companies hire market makers, new IPOs come online, 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.

Stagnant since 2012 due to lower growth, free float is likely to expand at a rate of 5% in coming years as the economy accelerates and new instruments such as Fibras/Firbis (REITs) come to market.



Exchange Profile

			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
ALICORC1	—	Alicorp S.A.	10.9%	0.8	—	—	—
BAP	BAP US EQUITY	Credicorp Limited	1.3%	0.46	322,992	72,201,632	1.3
BVN	BVN US EQUITY	Compania de Minas Buenaventura S.A.A.	N, A	0.19	1,169,691	17,206,155	0.9
CAPACASC1	CPAC US EQUITY	Cementos Pacasmayo S.A.A.	10.9%	0.58	120	1,444	0.0
FERREYC1	—	Ferreycorp S.A.A.	17.1%	0.59	—	—	—
IFS	—	Intercorp Financial Services Inc	7.8%	0.53	—	—	—
VOLCABC1	—	Volcan Compañia Minera S.A.A.	19.3%	0.56	—	—	—
MINSURI1	—	Minsur S.A. Inv	2.7%	0.07	—	—	—
CONTINC1	—	BBVA Banco Continental	3.9%	0.29	—	—	—
CVERDEC1	—	Sociedad Minera Cerro Verde S.A.	2.6%	0.04	—	—	—
ENGIEC1	—	Engie Energia Peru S.A.	0.6%	0.22	—	—	—
GRAMONC1	GRAM	Grana y Montero S.A.A.	10.3%	0.27	—	—	—
INRETC1	—	InRetail Peru Corp.	12.6%	0.78	—	—	—
LUSURC1	—	Compania Minera Milpo S.A.A.	12.6%	0.78	—	—	—
MILPOC1	—	Luz Del Sur S.A.	3.3%	0.06	—	—	—
SCCO	SCCO	Union Andina de Cementos S.A.A.	0.5%	0.11	—	—	—
UNACEMC1	—	Southern Copper Corp	9.2%	0.09	—	—	—
BACKUSI1	—	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$1.4 million, along with US$250,000 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). 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

CURRENT VOLUMES AND FEES

Equity – At present there are no loans with pending settlement. All fees were waived until December 2018, 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.

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. It is expected that new regulation will come in 2019 to promote the repo and lending markets in government debt.

Repo Market Size

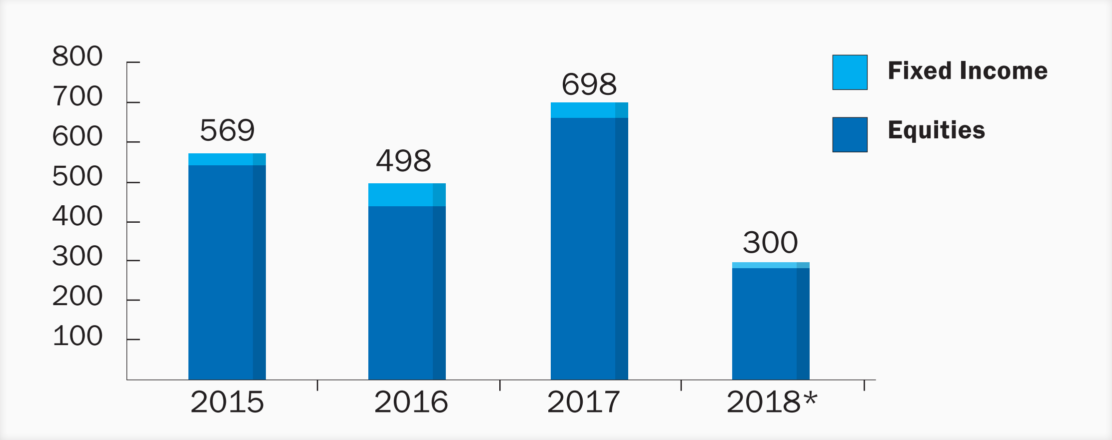
Equities

As of May 2018 there were 3,742 equity repo transactions, totaling US$294.1 million.

Fixed Income

Through May 2018 there were 213 fixed income repo transactions, totaling US$14.71 million.

Peruvian Repo Trends, 2015-18, By Number of Transactions



*INFORMATION FROM JANUARY TO MAY

General Securities Lending Market

Securities Lending Model

BVL and CAVALI are currently working to create a CCP model that is expected to launch during 2020. The CCP will take into consideration the potential benefits and limitations regarding foreign participation.

Market Participants and Their Roles and Responsibilities

The Peruvian securities market could benefit from the growth of securities finance. At present some 39% of stock market free float is with low-turnover players like Peruvian pension funds; lending those shares could lead to higher turnover in the near 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 transation, 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 case of 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 Superintendency 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 Superintendency 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.
- **Vendors**: BVL expects vendors to have a future role in enhancing market transparency by publishing lendable stocks/collateralizable securities pricing for the benefit of current and potential investors.
- **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.

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)

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 that have been sold short, the investor requests 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 circumstance. Now, 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 settlement date of the stock loan, the borrower client has to 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 could 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

Also, the complementary dispositions of these articles are published on the website of the Stock Exchange.

Source: 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 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 up-tick (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 including possible fee discounts, as well as training sessions for brokers covering SBL operational and legal structure.

ARGENTINA

1 Argentine Peso = *0.026 USD*
As of Dec. 27, 2018

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. The 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	**NUMBER OF COMPANIES LISTED ON BYMA,** INCLUDING SIX NON-ARGENTINE COMPANIES
24	**COMPANIES WITH ADRs OR GDRs**
US$62.7BN	**MARKET VALUE OUTSTANDING** (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$2.3 billion, a 12-year high.

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 on the MAE.

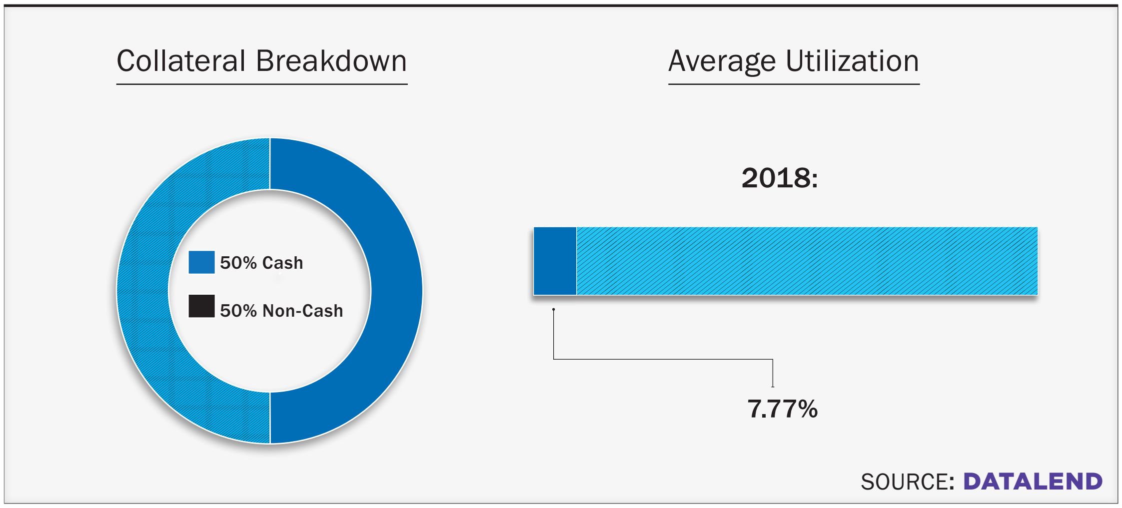
Exchange Growth Expectations

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).



Equities

In October 2018, the daily average SBL volume on exchange was 1.5 million pesos for equities.

Fixed Income

In October 2018, the daily average SBL volume on exchange was 23 million pesos for public and private fixed income.

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. 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 and their Roles and Responsibilities

Securities Finance Market Participants – *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 July 2018 there were 250 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:** CNV (National Securities Commission) 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; however, implementation of the new investor-friendly Capital Market Law of 2018 is likely to 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 of circumstances that, in the opinion of the Board, affect the normal development of the same.

Short Seller Market Access

Short seller transactions are arranged in the normal settlement cash period (T+2). Shorted securities must be obtained in the same trading session, and transactions completed 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 Comisión Nacional de Valores (local regulator) 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 amount 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 lent out. 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.

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.

MILA AND THE OUTLOOK FOR LATIN AMERICA LENDING

While it is still early days, looking ahead, the MILA market association could ultimately play a significant role in the long-term unification of securities lending across the region.

To address the scale, expense and liquidity issues that have often hampered Latin American countries, the Mercados Integrados Latinoamericanos (MILA) was launched in 2011, connecting the CSDs and financial exchanges of Chile, Peru, Colombia and, in 2014, Mexico. An outgrowth of the overarching Pacific Alliance, MILA has continually worked to hone best practices, harmonize the exchange of inter-market data, and facilitate multi-exchange stock listings as well as other efforts aimed at improved efficiency and liquidity. MILA has been responsible for boosting capitalization through increased trading volume across its member nations, and today, MILA exchanges lead the region in total listed securities, rank second in combined market capitalization and third in overall volume.

MILA and SBL

Ongoing integration efforts—which have included, among other things, the availability of sophisticated trading tools on a cross-border basis—have laid the groundwork for regulatory harmonization of equities trading and custody throughout the MILA network.

With foreign investment integral to regional liquidity, part of the discussion continues to center on developing more investor-friendly standards, including strategies for expanding securities borrowing and lending (SBL) within Latin America. Mexico notwithstanding, using securities finance to bolster liquidity and trading volumes has been a relatively recent development in parts of the region, and since each country has a unique economic and regulatory footprint (in Mexico, for instance, pension fund owners are restricted to fixed income loans only), securities lending models tend to work best internally, rather than cross-border.

Still, trends suggest a market conducive to lending is ahead. Last year, Argentinian regulators gave the green light to an on-exchange securities lending program, while in Peru changes to that country's nearly 20-year-old lending platform included enhanced short-selling best practices as a way of attracting foreign investment while boosting market liquidity. Similarly, efforts to streamline lending in Brazil have resulted in ongoing consultations with regulators in both the U.S. and EU. Finally, as part of the effort to meet demand for borrowed securities, Mexico recently unveiled its newest exchange, the Bolsa Institucional de Valores (BIVA), which is expected to help attract additional foreign capital to the region.

Some participants are looking to new solutions as a way of making cross-border transactions more feasible. Indeed, proponents see MILA playing a potentially significant role in expanding access to blockchain and other new technologies across the network, increasing capital inventories in the process.

Yet another way to move the needle is to have streamlined agreements that allow regional brokers to borrow from one another as needed. For example, if a broker has a good relationship in Mexico but would like to obtain loaned securities elsewhere, with a specialized agreement, one could streamline the process on behalf of the counterpart that is handling the trade.

All Together...How?

As activity through the MILA network has mainly been limited to secondary trading, at present the association accounts for just a fraction of the region's total equities valuation. Then again, MILA has always been a long-term proposition, and much of its potential lies ahead. ▶

But MILA is only part of the integration equation. What other strategies could help advance the cause of regional unity?

- Increasing broker-dealer participation is pivotal, as is the creation of a universally recognized set of tax laws
- Addressing intra-MILA barriers might also include enhanced remote access for brokers as a way of mitigating counterparty credit risk and reducing transactional expense, as well as a standardized protocol for region-wide settlement, issuance and clearing activity
- From there, market heads could work toward achieving regulatory parity around pension fund assets, including tax treatment, risk assessment, foreign-allocation limits and other factors

With respect to lending, the biggest obstacle is lack of process uniformity. In countries like Chile, Colombia and Mexico, separate—and in some instances radically different—securities lending models are used, making harmonization all the more challenging. While separate lending practices are likely to persist at least over the short term, participants nonetheless continue to seek more streamlined processes where possible. Transparency remains a priority; earlier this year, the RMA established a working group for the purpose of encouraging greater visibility into and development of securities finance within the Latin American region, including strategies aimed at boosting foreign participation and improving dialogue between industry leaders and regulators.

While acknowledging the need for a more granular approach to regulatory alignment, rules need not be identical, notes the Inter-American Development Bank (IDB) in its recent paper "Financial Integration in the Pacific Alliance," but rather a "harmonization of objectives and substance" on a region-wide basis. This in turn would lead to greater efficiency through enhanced investor protections, increased local competition, as well as faster transactional processes, according to the research.

Today global players are expanding their presence in the likes of São Paulo and Bogota in order to directly connect asset owners with prospective managers, while also looking for new opportunities in the making. Going forward, the sustained interest in Latin America among foreign investors, as well as continued cooperation between regulators and industry heads, is expected to advance the cause of SBL within the region, albeit at a slower pace relative to more developed areas.

Underscoring the importance of aligning issuers, investors and trading protocols under MILA, the Pacific Alliance recently noted how "financial integration will permit developing more and better investment projects of high quality, including in infrastructure, to support development in the region." Accordingly, a concerted effort by MILA to continue fostering a unified approach to regional securities finance will be key to maintaining the current momentum. ■


UNA VIA

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.

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