

VENEZUELA

SECURITIES

SUMMARY

Trading of securities in Venezuela is thin and highly concentrated. The Caracas Stock Exchange IBC Index has fallen sharply since September 1997 due to the Asian financial crisis, the decline in international oil prices, and uncertainty about the results of the national elections scheduled for December 1998. The National Securities Commission (Comisión Nacional de Valores, or CNV), under the Ministry of Finance, is the chief regulatory agency of the local stock exchanges. The proposed reform of The Capital Markets Law was approved by the Chamber of Deputies in 1997 but awaits ratification by the Senate. Banks may engage in a full range of securities activities under the 1994 Banking Law, although their participation has typically been indirect through the securities firms that they own. Foreign banks and securities firms are allowed to engage in fund management activities, subject to authorization from the CNV. There are no impediments to the introduction of new financial products although some transactions may require prior approval from the Superintendency of Banks.

DESCRIPTION OF THE MARKET

Caracas Stock Exchange

The Caracas Stock Exchange (CSE) is a privately owned corporation that has been in operation since 1947. A second regional exchange was opened in Maracaibo in 1986, but trading volume on the Maracaibo Exchange is less than 5 percent of the trading volume handled by the CSE. An Electronic Stock Exchange (SET) began operations in mid-1995. Membership in local capital markets is open to both individuals and legal entities.

Trading is thin and highly concentrated. After declining as a percentage of GDP for five successive years, capitalization of the CSE doubled in 1996, increasing from US\$4.3 billion to US\$10 billion. At the end of 1997, the total amount in trades on the CSE reached a record level of US\$5.6 billion, representing an 84 percent increase over the previous year. The IBC Index closed at 3,893.88 at the end of September 1998, a decrease of 55 percent from year-end 1997. The IBC Index reached its 1998 low of 2,904.02 at the end of August after declining consecutively throughout the year (with the exception of March). The market has been affected by the impact of the Asian financial crisis, the decline in international oil prices, and uncertainty about the results of the national elections scheduled for December 1998. Higher local interest rates have also lured some investors out of equities and into the fixed income market. The index was modified on August 28, 1997 to make it more representative of the companies now being traded in the CSE. The national telephone company CANTV is one of the new companies included in the index as a result of privatization.

VENEZUELA – SECURITIES

The CSE began trading stock index futures and dollar-bolivar exchange rate futures in September 1998.

Stock and Bond Markets

Trade in shares accounted for US\$3.9 billion during 1997, representing a 220 percent increase over 1996. A total of 225,546 trades were made, for a daily average of 917 trades. In rights, the total amount traded was US\$2.3 million. Global Depository Shares (GDSs), which are instruments negotiated in dollars, went from US\$5.4 million in 1996 to US\$20.1 million in 1997. In the fixed income market, trades in Public Bonds increased by 29 percent, from US\$110.1 million in 1996 to US\$143.7 million in 1997. Trades in Brady Bonds amounted to US\$1.4 billion, around 12 percent less than in the previous year. Several companies made public offerings of shares during 1997, proceeding through sales on the primary market, allotments to their shareholders in payment of dividends, or through capital subscriptions.

Market Regulation

The Capital Market Law of 1975 regulates the public offering of shares and other medium- and long-term securities, except public debt bonds and credits. The CNV, under the Ministry of Finance, is the chief regulatory agency of the local stock exchanges. The CNV is also the futures regulator. Like most securities commissions around the world, the CNV has no legal capacity of its own to impose criminal sanctions for violations of legal regulatory statutes. A proposed reform to the Capital Markets Law was approved by the Chamber of Deputies in 1997 and only remains to be discussed and ratified by the Senate. This new law would strengthen the regulatory environment that governs Venezuela's equity markets. It would provide new regulations for intermediaries, establish new conditions for public offerings, and make regulations more flexible for small firms that wish to issue stocks.

U.S. PRESENCE IN THE MARKET

U.S. presence in Venezuela's capital market is modest. Citicorp purchased a seat on the CSE in 1988 for its local brokerage house, Citibank. Bankers Trust is also a member of the CSE. Additionally, as of June 1998, 11 other U.S. commercial or investment banks had representative offices in Venezuela. Other U.S. commercial and investment banks participate indirectly in the local capital market, either by using offshore or local Venezuelan firms as intermediaries. Activities include consulting, investment advising, underwriting, and trading dollar-denominated public sector debt instruments with local and foreign clients.

TREATMENT OF U.S. FINANCIAL INSTITUTIONS

Banks may engage in a full range of securities activities under the 1994 Banking Law, but their participation is typically indirect through the securities firms that they own. Foreign banks and securities firms are also allowed to engage in fund management activities, subject to authorization from the CNV. There are no impediments to the introduction of new financial products. Some transactions, however, may require prior approval from the superintendency of Banks. Foreign corporations located in Venezuela may issue stocks, bonds, or commercial paper on the domestic market, provided they comply with the regulations established by the CNV and the provisions of capital markets legislation. Residents of Venezuela may access offshore securities markets for fund-raising purposes, but have very limited access to offshore securities markets for investment purposes. Nonresidents may invest in Venezuelan securities, subject to some restrictions in certain sectors of the economy.

The most significant remaining barrier to market entry is Article 11 of the Venezuelan Banking Law, which allows the Bank Superintendency to consider economic and financial conditions when deciding on an application for entry into the financial (including securities) sector by a foreign entity. However, there have been no reported cases of foreign entities being refused market access. The law was not even invoked during the 1994-95 financial crisis. Foreign entities are afforded national treatment once granted permission to enter the market.

No legal or regulatory changes are required to implement Venezuela's GATS offer. The offer reflects current laws governing Venezuela's financial sector.