

ARGENTINA

SECURITIES

SUMMARY

Argentina's securities market is relatively small compared to its banking sector as Argentine corporations tend to raise capital primarily through bank loans. The number of local corporations whose shares are listed on the Bolsa de Comercio de Buenos Aires – Argentina's principal exchange – decreased from 147 in 1996 to 136 in 1997. The bond market is dominated by public sector issues. However, the mutual fund and private capital pension fund markets are growing quickly.

There are no market access restrictions or capital controls in Argentina. Argentine laws and regulations do not discriminate based on domestic or foreign ownership. U.S. banks and securities firms participate in the market either as branches or subsidiaries. There are no restrictions on Argentine access to foreign markets or foreign access to Argentine markets.

At the end of 1997, there were 163 licensed stockbrokers and brokerage houses in Argentina, including six affiliated with U.S. financial institutions.

DESCRIPTION OF THE MARKET

The Bolsa de Comercio de Buenos Aires, Argentina's principal exchange, is a not-for-profit association established in 1854. It sets listing requirements; approves, suspends, or revokes listings; and establishes guidelines to ensure accuracy of financial statements and disclosure of material information.

The Mercado de Valores de Buenos Aires, or securities market, is a for-profit corporation established in 1929. It is a self-regulating body that sets and enforces standards for individual stockbrokers and stock brokerages, regulates trading rules, and clears and settles transactions.

The two organizations are majority shareholders in the Caja de Valores S.A., the central securities depository. The Mercado Abierto Electrónico S.A. (MAE), the electronic exchange, started operations in 1989 to conduct over-the-counter transactions. Argentine and foreign financial institutions participate in the securities markets as brokers and dealers in the securities markets.

Argentina's securities markets are very small and highly concentrated by world standards. Trading is thin and prices are sometimes volatile. Trading totaled US\$111.4 billion in 1997, down from over US\$166 billion in 1996. (Public bond trading was unusually high in 1996 in the aftermath of the Mexican financial crisis. The “Tequila Effect” caused Argentine interest rates to soar.) Trading in

corporate stocks and bonds rose 21 percent during 1997, but government bond trading decreased. The general average daily trading volume in 1997 was merely US\$445.5 million, down from over US\$600 million in 1994.

Market Capitalization (US\$ billions)		
	December 1996	December 1997
Common Stocks	44.7	59.2
Government Bonds	39.5	42.7
Corporate Bonds	3.5	3.8

Sources: Comisión Nacional de Valores and Bolsa de Comercio de Buenos Aires at <http://www.merval.sba.com.ar>, Instituto Argentino de Mercade de Capitales.

Argentina's capital markets were affected by the Asian crisis of mid-October 1997, and at year-end prices began to increase but had not recovered to pre-crisis levels. Market capitalization for common stocks peaked at US\$66.3 billion in October 1997, but closed below US\$60 billion at the end of 1997 – up more than 30 percent from 1996. Nevertheless, market capitalization is still less than 20 percent of Argentina's GDP. Thirteen company listings were withdrawn from the Bolsa de Comercio de Buenos Aires in 1997, and two equity listings were added. Only 136 companies listed at the end of the year – down from 147 in 1996. (Some small- and medium-sized enterprises quit the exchange after an experimental period, either because they found it difficult to meet requirements or because they found financing through the exchange to be relatively expensive.)

The Buenos Aires market is highly concentrated. The 20 most actively traded stocks account for 95 percent of total trading. The five corporations with the largest market value account for 60 percent of total market capitalization of listed common shares. Small futures and options markets for commodities (wheat, corn, soybeans, and sunflower seeds) operate in Rosario and Buenos Aires. The Bolsa de Comercio de Buenos Aires also operates a market for stock and bond options. The Bolsa de Comercio de Buenos Aires and the Chicago Board of Trade are discussing a joint venture to develop futures and options markets. The joint venture is expected to start in 1999.

The number of bond issues on the Bolsa de Comercio de Buenos Aires rose to 160 in 1997. Twenty-six were government bonds and the remaining 134 were corporate issues. There are no restrictions on the types of bonds sold or underwritten in Argentina.

The Argentine Securities Commission (Comisión Nacional de Valores or CNV) was created in 1968 to regulate public offerings, ensure transparency, and to oversee the development and organization

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of financial markets in Argentina. Improving access of small companies to capital markets is one of the CNV's primary objectives. The CNV participates in the International Organization of Securities Commissions and the Council of Securities Regulators of the Americas.

A joint commission consisting of representatives of the CNV and the Secretariat of Agriculture is the futures regulatory authority. However, the Secretariat is the dominant voice in the commission.

At the end of 1997, 18 companies managed private capital retirement and pension fund portfolios, which had grown to nearly US\$9 billion – up from US\$5.3 billion in 1996. Contributions are increasing by nearly US\$300 million per month. By 2010, according to industry estimates, Argentine private retirement and pension fund administrators will manage over US\$110 billion in assets. Over 6.4 million Argentines have opted for private retirement and pension funds, but for various reasons only about 3.5 million made contributions at the end of 1997. Banks, securities firms, life insurers, and other financial institutions participate in management – including many U.S. firms. Stocks account for over 20 percent of these portfolios.

The Argentine mutual fund market has grown spectacularly since 1994, when 86 funds were available with total value of just US\$390 million. At the end of 1997, a diversified range of 198 funds was available with total value of over US\$5 billion – which is less than 2 percent of GDP and only 8 percent of total bank deposits. Fixed income and money market funds represent a large share of total mutual fund holdings. Conditions for continued growth of Argentina's mutual fund market are in place.

Argentina's Mutual Fund Market		
	12/31/96	12/31/97
Number of funds	151	198
Value (US\$ billions)	1.87	5.38

Sources: Comisión Nacional de Valores and Argentine Chamber of Mutual Funds.

U.S. PRESENCE IN THE MARKET

Of the 163 brokers and brokerage houses licensed in Argentina at the end of 1997, six are from the United States: Bankers Trust, BankBoston, Chase, Citicorp, J.P. Morgan and Merrill Lynch. Other U.S. firms (such as Prudential, Goldman, and others) use intermediary agents. U.S. firms are among the leaders in securities, mutual funds, and private capital pension administration in Argentina. Fidelity Investments arrived in Argentina in 1997 and is developing a corporate and institutional client base. According to data from the Argentine Chamber of Mutual Funds, BankBoston is the

leading mutual fund institution in Argentina with a market share of 22 percent.

Argentina's Mutual Fund Market Shares (percent, year-end 1997)	
BankBoston	22
Banco Río-Santander	16
Banco Francés	14
Banco Galicia	7
HSBC Banco Roberts	6
Fidelity Investments	2
Others	33

Source: Argentine Chamber of Mutual Funds.

TREATMENT OF U.S. FINANCIAL INSTITUTIONS

There are no laws or regulations that discriminate between foreign and domestic firms in the Argentine financial market. There is no requirement to obtain government approval for or to register foreign investments. Exchange markets, repatriation of capital and profit remittances are completely open and unrestricted.

One hundred percent foreign ownership of branches and subsidiaries is permitted. Foreign and Argentine firms have equal access to stock exchange seats. Registered foreign firms underwrite securities instruments, broker and trade domestic and foreign securities, and manage mutual and pension funds through licensed subsidiaries.

The Argentine government is discussing financial services liberalization within Mercosur with Brazil, Uruguay, and Paraguay. The Montevideo Protocol signed in December 1997 commits all Mercosur members to negotiate the liberalization of services, including financial services, over a ten-year period. Given Argentina's liberal treatment of financial services, it is unlikely such regional commitments will exceed Argentina's commitments under GATS. Argentina's GATS commitments reflect current levels of openness.