



# Trends and Factors Impacting on Latin American Equity Market Development

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# Important Timing to Take Stock of Latin American Equity Market Developments

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- Globally, there have been major transformations in market characteristics and practices
- To better understand these developments and how to address them, the OECD Corporate Governance Committee launched “Corporate Governance, Value Creation and Growth” with objective to:
  - Facilitate meeting between savers and companies that need equity capital for growth and job creation;
  - Facilitate the allocation of equity capital to the best investment opportunities;
  - provide incentives for informed and long-term ownership
- Important to understand impacts on both OECD and emerging markets before considering revisions to the OECD Principles of Corporate Governance in 2014



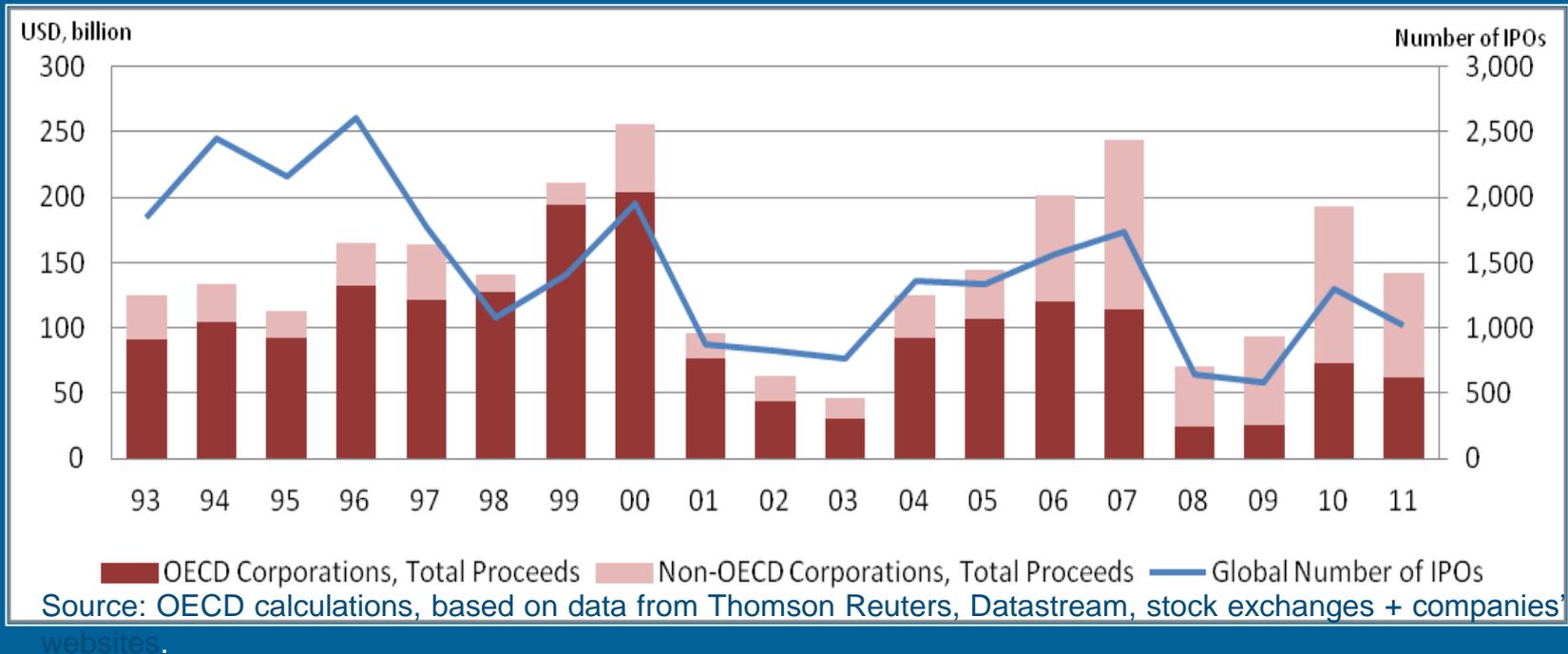
# Changes and challenges in OECD markets

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- Stock markets are fragmented
- New trading techniques, such as high frequency and algorithmic trading
- New instruments, such as exchange traded funds
- Investment strategies have become more complex
- Increased importance of institutional investors
- The universe of investors has become more complex and the way from savers to companies has become longer



# Declining IPO numbers and volume



- Both the number and \$ volume of IPOs have been steadily declining albeit with a small recent “recovery” fuelled by non-OECD companies.
- 2008-2011, 63 % of all equity raised by non-OECD companies.
- Non-OECD markets have moved from serving 20% of all IPOs during 1995-2003 to 60 percent from 2008-2011
- In OECD, average annual IPO volume decreased from USD 132.7 billion in 1993-2000 period to USD 69.6 billion in 2001-2011 period



## Impact on ownership structure

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- In OECD, more than 40% of companies delisted from the exchanges over the last 10 years.
- Globally, listed companies with a controlling owner have become the norm.
- The US, UK, Ireland and Australia remain the only countries with fully dispersed ownership (average free float ratios of around 90%).
- But the share of global market capitalisation of “dispersed” markets has decreased by some 30% from 56% to 40% between 2000 and 2011



# Impact on shareholder monitoring and engagement

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- High turnout in shareholder meetings: US: 81%, Korea: 75%, Japan: 75% and UK: 68%
- The degree of dissent in shareholder meetings is quite low; between 2-6%
- Increasing use of proxy advisory services
- Obstacles to shareholder co-operation and cross-border voting



# What has gone wrong?

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- Eroding investor confidence in stock markets
- Undermining the willingness of entrepreneurs and growth companies to use equity markets
- Unlevel playing field among investors and crowding out of long-term investment
- Weakness in price discovery (increasing use of dark pools, less focus on business fundamentals)
- Less attention to small and growth companies



# How have these trends impacted on Latin America?

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- Latin America markets have shared in the emerging market trend of growing market capitalization (28% in late 90s to 52% of GDP in 2006-10), IPOs and increased trading volume but still lag behind OECD averages.
- Ownership concentration and trading liquidity has changed very little (slightly less concentrated in Brazil).
- Fragmentation not a problem.
- However, growing use of ETFs and high-frequency trading risks to further concentrate trading in largest, most liquid companies.
- This may negatively impact on incentives for new, smaller issuers to list and for shareholders to monitor CG.



# What are the preliminary country-level trends (subject to further RT input)?

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- **Argentina:** lowest market capitalization and trading volumes amidst concerns about the role of state ownership in the market, but new capital market law aims to spur greater market participation.
- **Brazil:** Largest and most liquid market, and many cg reforms, but Novo Mercado-inspired IPO boom of 2005-2007 has stalled more recently. Some concerns in terms of state intervention.
- **Chile:** Highest market capitalization as % of GDP and number of listed companies as % of population. Its active pension funds a strength, along with significant reforms during OECD accession.



# What are the country-level trends? (cont.)

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- **Colombia:** fastest growth in market cap as % of GDP (18% to 60%). Largest companies and highest market concentration (large groups and SOEs dominate market). Reforms have been ongoing and may continue as part of new OECD accession process.
- **Mexico:** Recent increase in equity market activity and value (highest price/earnings ratio in region). Main reforms in 2005; more recently established corporate governance index.
- **Peru:** Most rapid growth in stock returns but low trade volumes and lowest number of IPOs. Peruvian CG Principles under review.
- **Ecuador:** small and illiquid market, but listed companies as % of population not low.



# Regional perspective: CG Achievements

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- Consolidation and integration of trading
- Increased disclosure requirements in some markets
- Convergence of standards (IFRS, director independence, audit committees, voluntary codes)
- Requirements for pension funds, IIs to take CG into account
- Actions to facilitate shareholder participation



# Challenges remain

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- How to get mid-sized companies to list?
- How to ensure market conditions with concentrated ownership for effective functioning of cg frameworks?
  - Balance between regulatory requirements and flexibility to adapt own practices
  - How to improve board functioning
  - How to address cg in conglomerate structures
  - How to address global trading trends (ETFs, algorithmic and HFT)
  - The role of the state in equity markets
  - SME listing segments?
  - Use of bonds



## Issues for discussion

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- How do you see the links between your countries' CG improvements (or lack of them) and overall equity market growth and trading? What other factors besides CG should be considered to support equity market growth?
- Are the challenges identified in this report the right ones that Latin American policy-makers should focus on to support use of equity markets for economic growth?
- What further information (i.e. research) or shifts in the legal or regulatory framework or CG arrangements may be desirable to make equity finance attractive not only to large, established companies but also for smaller, innovative growth companies?



Thank you for your attention

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