

## **Capital Markets**

*Introduction: The capital market in Mexico is composed of preferred, common stock and FIBRAS which they can be issued as public or private offer. The private offer is over the counter which offers to the other company and some persons. And we have public offer which is held by investor's bank and other intermediates to the general public in the Mexican Stock exchange market which holds all the operations in Mexico. At the same time it is regulated by the Secretaria de Hacienda y Credito Publico and Banco de Mexico.*

### **What is a common Stock?**

*Common stocks are securities that represent a share of a company's equity and are issued to obtain financing and are traded amongst investors through the BMV. The ownership of the common stock grants its buyer the rights of a shareholder as a nominal owner of the company.*

*Gains for the investors are achieved in two forms:*

- 1. Dividends that the company pays (common shares allow the investor to share in the Company's earnings and to appreciate in value with the company).*
- 2. Capital gains are calculated as the differential value of the stock when it was sold and when it was bought.*

*There is no maturity date for these securities because the decision to sell it or to retain it resides exclusively in the holder. The price is based on the performance of the issuing Company and the public's expectations of the Company's future earnings and performance.*

*Its price is influenced by external elements that affect the market in general. The investor must evaluate carefully if they can assume the implicit risk of investing in common stock, if they prefer more conservative investments or, a combination of both.*

*Any stock investor's goal is to achieve higher net worth in the long term through investment. By diversifying their portfolio, investors can offset the risk of investing in riskier stocks while realizing higher potential returns.*

*The professional broker's service in the equity markets is necessary, since the experts have the elements and research to evaluate the factors that could affect the price of a stock. Professionals can analyze stocks based on the national and international economic environment (technical analysis), and on the company's own information (fundamental analysis: financial situation, administration, valuation of the sector where it operates, etc.).*

## **FIBRAS**

*Are vehicles to finance real estate, which provide periodic payments (rent income) and also give the possibility of capital gains (appreciation).*

*Defined in Article 223 and 224 of Income Tax Law (LISR): FIBRAS are trusts that are focused in the acquisition or construction of real estate which is set to lease or acquire the rights to receive income from the leasing of such property and to provide funding for these purposes.*

### **Requirements:**

- *Companies or real estate trusts, under Mexican law.*
- *70% of assets are invested in real estate.*
- *Dedicated to the construction, leasing, buying and selling of real estate.*
- *Trustee distribute to the holders, at least 95% of taxable income of the past year.*
- *The properties can't sale within 4 years from the completion of its construction.*
- *Public: Placed among the public offer.*
- *Private: At least 10 persons, not related parties, and no one has more than 20% of the certificates.*

## **How to Get Listed on the BMV**

For a company to be able to issue stocks that can be quoted on the BMV (Mexican Stock Exchange), it must first contact a stockbrokerage house, which is the broker specialized to carry out the placement. That will then start a process to obtain the authorizations of the BMV and the CNBV (National Banking and Securities Commission).

- The interested companies must be registered in the National Securities Registry (RNV).
- Submit an application to the BMV through a stockbrokerage house, attaching the relevant financial, economic and legal information.
- Fulfill the provisions of the Internal Regulations of the BMV.
- Meet the BMV registration listing and maintenance requirements.

Once the status as an issuer is attained, the company must fulfill a series of listing maintenance requirements (such as the obligation to periodically disclose the information on its financial statements)

### **Requirements**

1. -Circulars of the National Banking and Securities Commission:

- Minimum registration and maintenance requirements
- Documentation that must be submitted with the application for registration, (application, sum up of the delivery information, public instrument where you can show that you have the right as legal representative of the company, charter, Project of the general meeting, project of the securities, audited financial statements, Documents according to the art 84 and 87 of issuer securities, legal opinion from a independent lawyer)
- Financial and corporate information

2. - Internal Regulations of the Mexican Stock Exchange.  
(4th Title. – Securities Listed on the Stock Exchange)

3. - Code of Best Corporate Practices.

4. - Code of Professional Ethics of the Mexican Stock Exchange Community.

*So how we can buy or sell the securities in Mexico. We have to do it through the intermediates which are regulated by the Secretaria de Hacienda y credito public along with the Banco de Mexico. These institutions handle with the operation of trading securities in the Mexican stock market which is also regulate by the same institution that has been mentioned.*

### **Some financing Intermediates in Mexico**

*AcciGame, Actinver, AFIRME, Afore Bancomer, Afore XXI, AMAFORE, American Express, Arrendadora Atlas, Asesor Financiero Guillermo Armas, Banamex-Accival, Banco Inbursa, Bursamex*

### **History how the capital markets have been held for the Mexican stock market**

*The Mexican Stock Exchange, or Bolsa Mexicana de Valores (BVM), is Mexico's only stock exchange. It is the second largest stock exchange by market capitalization in Latin America.*

*BMV is now it is a public company which is listed on its own stock exchange following a 2008 IPO.*

*The Mexican Stock Exchange actively trades stocks, debentures, debt instruments (government and corporate bonds), and warrants and other derivatives. Trading is conducted on a fully electronic trading system, called the BMV-SENTRA Equities System.*

*Many of Mexico's well known companies are listed on the Mexican Stock Exchange, such as Cemex, Telmex, America Movil, Televisa, TV Azteca, and Walmex.*

*Some of the major Mexican Stock Exchange listed companies also trade on US stock markets as ADRs.*

*Operations and history of Bolsa Mexicana de Valores (Mexican Stock Exchange)*

*Bolsa Mexicana de Valores SAB de CV (known as BMV) is a modern, vertically integrated group of businesses which controls and manages:*

*(a) the Bolsa Mexicana de Valores exchange itself (listed stocks and debt instruments for Mexican issuers). At March 2009 there were 130 domestic equity issuers listed, plus another 618 mutual funds. Since January 1999 the exchange has been fully electronic using the BMV-SENTRA equities system*

*(b) the Global BMV Market for non-Mexican registered issuers. At 31 December 2007 there were 346 foreign equity securities and debt securities listed on the Global BMV Market. Foreign companies listed on the global market include Apple, Dell, Microsoft and JP Morgan.*

*(c) the MexDer marketplace for derivatives (futures and options)*

*(d) the SIF-ICAP over the counter (OTC) inter-dealer market for fixed income and derivatives products*

*(e) custody, settlement and clearing functions for brokers and market trades in securities and derivatives, using electronic trading platforms*

*(f) sale and supply of market information.*

*BMV is the only marketplace for listed securities and derivatives in Mexico, and has grown to become the second largest financial marketplace in Latin America after Brazil.*

*BMV originally started in 1886 as the Bolsa Mercantil de Mexico (Mexican Mercantile Exchange). It changed its name in 1975 to its current name, Bolsa Mexicana de Valores, and acquired smaller exchanges in Monterrey and Guadalajara. For its first 114 years of existence BMV was owned privately, most recently by a group of Mexican banks and brokerages. Then, in Mexico's first public share offering (IPO) of 2008, BMV offered its shares to the public and became a listed company on 13 June 2008. More than 13,600 individual investors bought shares in the IPO to make it a widely held public company.*

*BMV (the company) trades on the Mexican Stock Exchange under the ticker code BOLSAA.MX. BMV is an actively traded stock, and from 1 February 2009 its A shares were included in the BMV's own IPC index of the top 35 Mexican stocks for the first time.*

## **Troubles of capital markets**

*The Mexican Stock Exchange (Bolsa Mexicana de Valores--BMV). Following several years of dynamic growth, the BMV's leading index fell sharply as a result of the October 1987 United States stock market crash. The BMV recovered slowly in 1988, then surged ahead from 1989 through 1991. By the early 1990s, the BMV had become one of the world's fastest growing stock exchanges. During 1991 the index of traded stocks rose 128 percent in new peso terms and 118 percent in United States dollar terms. Analysts attributed the stock market's buoyancy to increased confidence in the economy and to expectations of lower interest rates and approval of NAFTA.*

*In 1992, 199 companies were listed as trading on the stock exchange. A total of 11 trillion new pesos were traded, and the exchange had a total capitalization of US\$139 billion and a price-to-earnings ratio of more than thirteen. The total value of stocks traded increased by US\$191 billion between 1987 and 1993. Treasury bills, bank acceptances, and commercial paper were the most common instruments traded. At the end of 1993, Mexican investors held about 75 percent of the equities traded. Although the value of Mexican-owned stocks rose by about US\$143 billion between 1987 and 1993, only 0.2 percent of all Mexicans had brokerage accounts at the end of 1992.*

*The BMV's market value stood at about US\$200 billion at the end of 1993. Analysts attributed the rise partly to expectations of higher profits resulting from a 1 percentage point reduction in the corporate tax rate, lower energy prices for industrial users, and euphoria over the passage of NAFTA. Despite a setback induced by the January 1994 Zapatista rebellion in the state of Chiapas, the BMV continued its strong growth in early 1994. Beginning in March, however, the market was buffeted by a series of political shocks--including two high-profile political assassinations, revelations of high-level corruption in President Salinas's entourage, and continued unrest in Chiapas--that contributed to its high volatility throughout the rest of the year.*

*The stock market was further buffeted by the collapse of the new peso in early 1995, causing the stock index to fall to less than 1,500 points in February of that year. The main stock index gradually recovered to just under 3,000 points by the end of 1995 and had reached 3,300 by September 1996. Mexican stocks gained 24 percent in dollar terms during the first eight months of 1996. Mexico's stock market had a US\$70 billion capitalization in September 1996, according to Morgan Stanley Capital International indices.*

### *Functions of capital markets*

*The Mexican Stock Exchange (BMV) is a forum in Mexico where the organized securities market transactions are held, as its main objective, to facilitate the securities transaction process as well as the market development, fostering its expansion and competitiveness through the following functions:*

- Establish the facilities and mechanisms as an 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 providing the necessary services for underwriting, offering and the exchange of the aforementioned securities;
  - Publish, provide and maintain available to the general public the pertinent information of the securities listed at the BMV and at the International Quotations System (SIC), about its issuers as well as of the executed transactions.
  - Establish the necessary means to oversee that the transactions held at the BMV by the Brokerage Firms comply with the applicable legislation.
  - Issue regulation that sets standards and operative guidelines as well as conduct norms to promote fair and equitable market practices at the securities market; guard its observation and impose disciplinary and corrective measures in case of lack of fulfillment, that are mandatory for Brokerage firms and the issuers with listed securities at the BMV.
- The Corporations that require monetary resources (money) to finance its operations or expansion projects, might find it at the securities market, by issuing securities (stocks, bonds, commercial paper, etc.) which are offered to the investors (issued) and traded (bought and sold) at the BMV, in a transparent and free competitive market with equal opportunities for all participants.

### **Market Participation**

To underwrite initial public offering, the company turns to a brokerage firm which offers them (primary market) to the investors through the BMV. By this means, issuers receive the corresponding monetary resources of the securities acquired by the investors.

Once the securities are placed among investors, they can be bought and sold (secondary market) at the BMV, through a brokerage firm.

The BMV is the physical place where the trades made by the brokerage firms are executed and registered. Investors buy and sell stocks and debt securities through intermediaries, called brokerage firms. It is very important to state that the BMV does not buy or sell securities directly. The investors send their orders through an account executive employed by a brokerage firm. These account executives are registered specialists that have received training and are authorized by the CNBV. The buy and sell orders are transmitted from the brokerage firm to the market through a sophisticated Negotiation, Transaction, Registry and Assignment Electronic System (BMV – SENTRA Captales) where they will wait to find and equal but opposite order and thus perfect the operation.

Once that shares or debt securities have been acquired, its performance can be monitored in specialized newspapers, or through printed and the electronic information system of the BMV.

*What is the importance of a Stock Exchange for a country?*

The stock exchanges world-wide are established institutions by the society for its own benefit. Investors go to them as an option to protect and increase their monetary savings, supplying monetary resources that in turn allow Corporations and Governments to finance productive and development projects that in turn generate jobs and wealth.

*The stock exchanges are organized markets that contribute to this financial channeling in a free, efficient, competitive, equal and transparent way, holding up previously agreed rules by all participant parties.*

*In this sense, the BMV has supported Mexico's economic development because, along with the financial sector institutions, it has contributed to channeling savings towards productive investments, a source of economic growth and job creation in the country.*

*In order to favor conditions of liquidity of the Mexican capital market and to fulfill the provisions of the new Securities Market Law, the Mexican Stock Exchange (BMV) launched the Market Maker program in September 2008. At the BMV this program is identified with the logo shown above.*

*The Market Maker is that member (Brokerage Firm) authorized by the BMV to promote liquidity and establish reference prices during the trading session in a security or group of securities of the capital market.*

*The Market Maker commits to continuously maintain buy and sell bids for a minimum amount of securities and with prices within the maximum spread established by BMV.*

### **Sum up**

*The Mexican capital market is one of the emerging economies for the last few years, but it has lost some growth. According to specialists, Mexican capital market is facing and will keep facing hard times the following months because the social and political issues. As well the war which the president started against the drug dealers and also the next president elections which will be on June 2012. The president election will be crucial moment for the Mexican economic situation. Mexican market can gain or lose confidence of the investors.*

### **Sources**

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