



**"MEXICO AND THE UNITED STATES:
CROSS BORDER FINANCING AND ACCESS TO FINANCIAL SERVICES"**

**EL FINANCIERO
LATINFINANCE**

ANNUAL MEXICO CAPITAL MARKETS WORKSHOP

**REMARKS OF
COMMISSIONER MARY L. SCHAPIRO
UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

MEXICO, D.F.

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The views expressed herein are those of Commissioner Schapiro and do not represent those of the Commission, other Commissioners or the staff.

**U.S. Securities and Exchange Commission
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Good morning. It is a pleasure to be here. It is always a pleasure to be in Mexico City and to see so many friends from the public and private sector. I never seem to tire of visiting Mexico. Indeed, the opposite is true. When I feel that I need a surge of energy or to be inspired by people who have a sense of vision about the future and a commitment to change and progress, a trip to Mexico is always satisfying.

The ten year anniversary of the International debt crisis was widely noted in the US press in August. Few would have guessed that this country, whose reputation in the international financial arena was so severely damaged, would, in ten short years, become the country leading the Latin American resurgence. The government devised and implemented comprehensive economic and fiscal reforms which dramatically reduced the rate of inflation and the financial deficit of the public sector, opened the economy through liberalization of trade and investment, produced real GDP growth averaging 3.8% over the past three years, transformed the role of government through deregulation and privatization, and restored economic confidence in Mexico. The Mexican stock market, despite

recent adjustments felt virtually around the world, has performed well. The vision of Mexico's leaders and the creativity of its private sector have given Mexico the right to claim many "firsts" among Latin American countries - from innovative offerings, such as this year's Eurobond government issue of 300 million deutsche marks to the first private placement of securities backed by travellers check receivables (by Bancomer).

Mexico is also the first Latin American country to negotiate a free trade agreement with the United States and Canada; an agreement which will lead to one of the largest open markets in the world with 360 million consumers. With or without NAFTA, the ties that bind our two economies are deep and strong. But NAFTA will provide us with an important framework for moving ahead aggressively to erase the barriers that still exist to the free flow of capital and financial services between the US and Mexico. For this and many other reasons it is important that the US Congress and the Mexican Senate move to ratify it.

The future of Mexico - and indeed the future of the United States, should be even brighter with the signing of the North American Free Trade Agreement. NAFTA and the continuing

integration of the US and Mexican economies will increase the cross-border flow of capital, goods, and services to the benefit of both countries. Indeed, NAFTA creates the opportunity for the next generation of Americans, Mexicans and Canadians to have a higher standard of living than ours, and a more secure future. I believe that this reality will be fully embraced in the US and thus, while anticipated changes in the composition of our Congress make it more difficult to predict the passage of NAFTA, there is every reason to be optimistic. I truly believe it is a question of "when," not "whether."

There will be many opportunities for expanding business after NAFTA. I believe that this is no less true for financial services providers than for others. For the US, NAFTA is a starting point for achieving the goals and objectives of our financial services industry and regulators; it is a major step in a process that must continue until ultimately, markets are completely opened.

For the SEC, it was important that NAFTA enhance competitiveness to the greatest extent possible without sacrificing safeguards for the protection of investors and our securities markets. Thus a goal of the SEC, as a regulatory agency, was to secure a prudential carve-out which enables us - and each country's

regulator - to adopt or maintain reasonable measures for the protection of investors, the integrity and financial responsibility of financial services firms, and to provide, as well, for the integrity and stability of the financial system. In addition, the agreement should and does promote long term coordination to enable the parties to minimize the effects of differing national regulations.

For US industry as well as the SEC, it was viewed as critical that the agreement result in substantial binding commitments to remove specific barriers in the financial services sector. In addition, US negotiators sought national treatment and equal competitive opportunity for financial service providers, thereby maximizing the ability of US firms to establish businesses in Mexico and compete fully with Mexican firms, without permanent restrictions on market share, activities or geographical location. While Mexican brokerage firms are present and doing business in the U.S., U.S. brokers are severely restricted in their ownership of Mexican brokerages, and prohibited outright from opening branches in Mexico or becoming members of the Bolsa.

NAFTA moves in the direction of making it possible for US and Canadian firms to establish broker-dealers in Mexico. The benefit is

not immediate however since US and Canadian firms will be subject to certain market-share limits during a transition period that ends in the year 2000 (with a potential extension of seven more years). During this transition period, Mexico gradually will increase the aggregate market share limit from 10% to 20% and will apply individual firm market share caps of 4%. After the transition period, US broker-dealer limits will be lifted and Mexico will apply national treatment to US firms. The US securities laws already operate on a national treatment basis, which is to say that Mexican firms do business in the US on the same basis as our domestic firms. The SEC's approach to national treatment is based on the notion that the participation of foreigners in the US markets provides healthy competition and increases investment opportunities.

Also important to US securities firms were provisions ensuring their ability to engage in cross-border financial services, including the right to buy and sell financial products cross-border and the right to participate in and structure transactions in Mexico. Thus, an important feature of NAFTA is the standstill agreement in which the US and Mexico have agreed not to restrict the current level of cross-border financial services. During the transitional period, there is assurance that US and Mexican firms will be able to maintain the

current level of cross-border business. Also important was Mexico's agreement to approve, on a case-by-case basis, the affiliation of securities firms with commercial or industrial corporations. This provision was especially important so that firms like Kidder Peabody, which is owned by General Electric, and Dean Witter, which is owned by Sears, can enter the Mexican market.

Of course it remains to be seen whether NAFTA will deliver its full promise of opportunity for the financial services sector of each country. Certainly, financial institutions are preparing for the eventual enactment of the agreement. Within a few weeks after agreement was reached, the Bank of Nova Scotia announced plans to acquire a 5% stake in Grupo Financiere Inverlat and in fact, has done so; Bank of Boston announced plans to convert its representative office to a banking unit; and Bancomer, Banamex and Banca Serfin all have placed bids for different Texas banks. US brokerage firms and mutual funds likewise are planning how they can most effectively enter the Mexican market.

But, we need not wait for the ultimate passage of NAFTA to strengthen the ties between our markets and our financial institutions. Indeed, it is absolutely clear that neither companies, brokers nor

regulators have been waiting. Cross-border offerings of Mexican securities reached unprecedented levels in the past 18 months. In fact, until this Spring, the American appetite for Mexican securities seemed virtually insatiable. During 1991 and the first quarter of 1992, 21 different Mexican companies made highly successful international equity offerings and raised a total of \$4.35 billion, much of it in the United States. In the US, we now have 6 Mexican companies publicly trading, and there have been 22 sizable 144A offerings for \$2.2 billion (\$1.6 billion in equity and \$600 million in debt).

The regulators are also not "waiting" for NAFTA's passage before addressing cross-border regulatory issues. The SEC continues to work with the Comision Nacional de Valores and with Mexican issuers on a wide range of issues. The beginning of our course of cooperation was the signing two years ago of the Memorandum of Understanding. That agreement has enabled us to work together in a number of areas, including, in particular, enforcement, in a very successful way.

Earlier this year, the CNV and the SEC convened a two day meeting of the securities regulators of the Western Hemisphere. Sixteen countries from the Americas were represented and became

the founding members of a new organization - the Council of Securities Regulators of the Americas, or "COSRA." COSRA is based on the premise that securities markets are fundamental to the development of private enterprises, the formation of savings and investments, the efficient allocation of resources and the promotion of economic growth. the goals of its members are to propose and implement legal, regulatory, and structural reforms to facilitate broad-based participation in the securities markets by fostering the basic protection of investors through the enforcement of sound accounting principles; by developing systems to ensure market transparency and efficient clearance and settlement systems; by establishing linkages among markets to enhance liquidity; and finally, by identifying and working toward the removal of regulatory barriers that unnecessarily impede cross-border investment opportunities. Going well beyond the US - Canadian - Mexican relationship to embrace all of the Americas, we found that the overwhelming commitment of the attending regulators was to a system of full cooperation within our hemisphere.

Having observed the boom, even pre-NAFTA, of cross-border offerings - which we expect to continue - the SEC has begun to take steps to improve the public and private offering process. In

particular, we have focused our attention on the need for increasing the liquidity of the private placement market for Mexican and other foreign issuers. For that reason, the Commission two years ago enacted Rule 144A to facilitate the growth of the foreign private placement market by permitting the resales of certain securities by large qualified institutions in the US without requiring their registration with the SEC. Mexican issuers have been among the most active users of the 144A market. With the proposed addition of collective trusts, master trusts, and insurance company separate accounts to the definition of qualified institutional buyers, as well as permitting the inclusion of US government securities in the 100 million dollar calculation, it is estimated that a trillion dollars of new buying power could potentially be added to the 144A market. I expect the Commission to approve these amendments in the near future.

As I said many times, it is our hope that 144A will be a stepping stone to the public markets. We recognize that there are limitations to the private placement market, particularly, the liquidity concerns of issuers and institutional buyers and sellers. Thus, we are dedicated to facilitating cross-border public offerings to the greatest extent possible. In our efforts to encourage foreign issuers to access US

public markets, our staff works with foreign companies to facilitate the registration process. After handling six Mexican public offerings, we have become familiar with the concerns and issues raised in Mexican offerings and we are developing an expertise that enables us to efficiently and knowledgeably complete the review process and enable companies to get to market quickly. We also try to accommodate the needs of Mexican issuers particularly in simultaneous offerings. For example, in the TELMEX offering, the SEC staff coordinated its efforts with Telmex representatives to expedite the review process through pre-filing conferences and advance review of draft registration statements. There was also coordination with the CNV to permit Nacional Financiera to conduct market stabilizing activities in the Mexican market. In other offerings, the SEC worked with issuers in connection with Mexican accounting and financial reporting in filings made with the SEC.

The advancement of the reputation of the Mexican market in the global economy continues apace. The SEC has recognized the strong desire of US brokers to hold Mexican securities. Thus, last year, the SEC designated eleven Mexican securities as "ready-market" securities for net capital purposes, a status reserved for only the most liquid non-US securities. The result of that designation is that

US broker-dealers can hold those securities without taking a full charge against their capital. Earlier this month, the Commission took steps to expand the universe of ready-market securities and to streamline the process by which they are designated. Rather than continually reevaluate the liquidity of specific Mexican issues - a time and resource consuming process - the Commission has decided to rely on the Financial Times-Actuaries Mexico Index as a test of ready-marketability. The adoption of the FT-A Mexico Index will ensure that the equities listed on the Bolsa will be continually reevaluated by an objective standard. The decision to switch from a stock-by-stock analysis resulted in an immediate increase, to 18, in the number of Mexican ready-market securities.

Looking ahead, we also need not wait for the passage of NAFTA to examine the differences in our capital rules, to resolve some of the issues of improving access for investment companies and investment advisers (which would permit their presence in Mexico without requiring them to establish a brokerage firm and meet the \$10 million capital requirement or be subject to the market share limitations), or to work toward harmonization of US and Mexican GAAP. In fact, the accounting standards boards of Mexico, the US and Canada have already begun a study to identify areas where progress can be made

towards greater harmonization of accounting rules and practices and to provide comparability of financial statements that will enhance investors' ability to compare enterprises in the three countries.

Having spoken about the opportunities that NAFTA can provide, I would be unfaithful to my role as a regulator if I did not also mention the responsibilities it imposes. The focus on opportunity is not misplaced but it must be accompanied by a focus on commitment to conducting business in a manner which serves the goals of preserving the credibility of our marketplaces, which we have all worked so hard to build. In the rush to take advantage of business opportunities, we cannot lose sight of what is most precious of all and what ultimately gives us the ability to prosper, namely a marketplace that is free and open and which operates with integrity. If, in a headlong rush to do more business, develop more products, list new companies, and attract new investors, we fail to honor our obligations to deal fairly with the public, to insure the integrity of the offering process and trading systems, we will ultimately have squandered our potential.

We have - each of us - Mexican, American and Canadian, an equal obligation to the integrity of our individual markets and to our

collective market. Ultimately, the presence of a strong regulatory authority is important. In Mexico, the talent and dedication of the leadership of the Comision Nacional de Valores is obvious. You have, as I believe we do in the US, a regulatory authority committed to development of a credible market. But the sole responsibility is not the regulators'; indeed, in my view, the regulators do not have even the primary responsibility. The exchanges, the brokerage firms, the investment advisors and counselors, the lawyers and accountants who advise the public companies and prepare the disclosure documents and financial statements, bear the responsibility for the integrity of the system.

With a collective commitment to that integrity, I am confident that we can and will work together - as government and industry and as Mexicans, Americans and Canadians, to ensure that the promise of NAFTA is realized.

Thank you.