2016 IOSCO Annual Conference

Changing times? How to face current and future challenges?
A view from Peru and MILA
Less than 7 years ...

October 2009
... our expectations were big and positive...

<table>
<thead>
<tr>
<th>Category</th>
<th>Expectations / Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>MILA GDP Growth</td>
<td>5% - 7%</td>
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<tr>
<td>Growth in Traded Volumes in Exchanges</td>
<td>12% anual</td>
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<td>8% - 10%</td>
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<td>F/X Expected Revaluation / Devaluation</td>
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<tr>
<td>Silver</td>
<td>USD 30.3</td>
</tr>
</tbody>
</table>

May 2016
But...the world changed
... and reality was different...

**MILA GDP Growth**
- Expectations / Prices: 5% - 7%
- What happened: 2% - 3%

**Growth in Traded Volumes in Exchanges**
- Expectations / Prices: 12% anual
- What happened: -14% anual

**Expected Market Returns**
- Expectations / Prices: 8% - 10%

**F/X Expected Revaluation / Devaluation**
- Expectations / Prices: 2% / -5%
- What happened: -8% / -30% YTD

**Growth of AUMs**
- Expectations / Prices: 13% anual
- What happened: 2% anual

**WTI, Copper, Gold, Silver**
- Expectations / Prices:
  - USD 111
  - USD 3.7
  - USD 1,675
  - USD 30.3
- What happened:
  - USD 27 - 44
  - USD 1.95 – 2.10
  - USD 1,050 – 1,260
  - USD 13.7 – 17.1

**May 2016**
... positive momentum was lost...

**Traded Volume (Volumes in USD, Jan-12 = 00)**

**Country Risk (EMBI*)**

**MILA Equity Indices (3m moving average, Jan-10 = 100)**

**Nominal Exchange Rate (Local Currency per US$, Jan-10 = 100)**
Is this the new reality?
A reality where...

• **We have a complicated world:**
  - New recession or slow growth?
  - What will happen to China? How can we know?
  - US Interest rate increases / Strengthening of the US Dollar.
  - Emerging Markets or Depressing Markets?

• *...that presents great challenges, but also opportunities*

![The Chinese Symbol for Crisis](危機)

Danger

Opportunity

*May 2016*
Peru’s case: Emerging Market or Frontier Market?
Consultation process context

**Investable securities for MSCI has decreased significantly in recent years.**

MSCI Peru - number of constituents evolution

Source: MSCI
Consultation process context

Lima Stock Exchange: Monthly equity traded volume - 3m moving average (US$ million)

Source: BVL

Lima Stock Exchange: Monthly equity number of orders - 3m moving average

Source: BVL

May 2016
### MILA: Traded Volume

#### Traded Volume / GDP - MILA (%)

<table>
<thead>
<tr>
<th></th>
<th>Peru</th>
<th>Chile</th>
<th>Colombia</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.1</td>
<td>17.0</td>
<td>10.8</td>
<td>10.8</td>
</tr>
<tr>
<td>2013</td>
<td>2.0</td>
<td>15.8</td>
<td>8.9</td>
<td>6.8</td>
</tr>
<tr>
<td>2014</td>
<td>1.9</td>
<td>12.1</td>
<td>8.0</td>
<td>7.0</td>
</tr>
<tr>
<td>2015</td>
<td>1.0</td>
<td>6.8</td>
<td>6.7</td>
<td>5.0</td>
</tr>
<tr>
<td>2016</td>
<td>1.4</td>
<td>14.1</td>
<td>5.4</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Source: WFE, FMi and BCRP

May 2016
What does changing from Emerging Market to Frontier mean?

- Perú is currently 0.4% of the MSCI Emerging Markets Index and would become 12.0% of the MSCI Frontier Markets Index $\rightarrow$ 30x

- The Pool of Funds on MSCI EM compared to MSCI FM $\rightarrow$ 130x
  - EM = 1.6T vs FM = 12BB

- When we comply again, we come back to EM

- It takes 7 - 10 years to move back from FM to EM... if we do everything right.

- We have done everything right as a country and investors want to see more of Perú, not less...
What had we been doing?

- Exchange fee’s reduction
- MSCI Inc. begins Peru consultation
- Mexican Stock Exchange entry to BVL
- 2/10 independent directors
- Mexican Stock Exchange entry to BVL
- Oliver Wyman research
- New Market Maker model
- Mexico is incorporated to MILA
- Foreign securities Market
- Integration with Cavali (CSD)
- Millennium platform is launched
- New model for Stock lending
- S&P/BVL indexes

May 2016
Peru wishes to continue developing its capital markets and aspires to become a regional capital markets hub.

Vision for market development

Peru wants to become a regional capital markets hub and be the go-to market in the Andean region because of its superior infrastructure, investor-friendly regulation and tax environment. Through the development of deep, liquid and open capital markets, Peru wishes to promote economic development and create greater social inclusion.
Successful capital markets share common characteristics that can provide key lessons for Peru’s development

- Broad base of investors, issuers and intermediaries
- Broad range of products and services
- State of the art market technology and infrastructure
- Strategic anchor to clear competitive advantage (e.g., trade, access to China)

Key characteristics of successful capital markets

- Strong government support for Capital Markets
- Light and simple (non-bureaucratic) business regulation
- Enforcement of laws and property rights
- Good corporate governance
- Tax regime that incentivizes market participation

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May 2016
We have designed a four step approach for Peru to work towards becoming a capital markets regional hub; with main focus on the first step.

**#1: Immediate focus**
- **Peru Today**
- Build the basis for development of local market
  - Expand product offer
  - Increase local and foreign investor participation
  - Professionalize intermediaries

**2014 – 2016**

**#2: Increase penetration and sophistication of local market**
- Develop sophisticated products & processes
- Improve incentive mechanisms for market participation
- Increase participants sophistication through education

**2017 – 2019**

**#3: Expand ties with other markets**
- Increase internationalization of Peruvian market with special focus on strategic partners (MILA and mining countries)

**2020 – 2022**

**#4: Become a regional hub**
- Build strategic differentiation in the region
- Increase connectivity with other foreign exchanges

**Peru 2025**
What happened from August / September 2015?

- Meeting with MSCI (NY)
- Creation of Steering Committee with Government
- Stock lending begins

September 2015:
- FIRBIS Law (REITS)
  - Law N° 30341
  - Capital gain tax exemption
  - Market Making facilities
  - Market Regulator (SMV) approves Algorithmic Trading with DMA
  - MSCI: Peru remains as Emerging Market

October 2015:
- PERUFID 2015 Seminar
- 100% fee waiver to broker dealers proprietary trading from the Exchange, CSD and Regulator
- 100% fee waiver for stock lending

November 2015:
- 2nd Roadshow Europe
- Communication plan

December 2015:
- 2nd Roadshow Europe

January 2016:
- Capital gain tax exemption: initial rulings

February 2016:
- 3rd Road show USA
- 3/11 independent directors

March 2016:
- Market Making: Engie
- Stock lending: Pension Funds tests
- Communication with global investors

April 2016:
- MSCI: Consultation (cont)
- Market Making: Engie
- Communication with global investors

May 2016
- Capital gain tax exemption: final rulings
Market Performance

3-month ATVR gap (%)

- Increasing number of stocks with 15% 3-mo ATVR since early 2016

3-month ATVR

- Market Making begins
- Capital Gain Tax Exemption kicks-in (Law N° 30341)

Lima Stock Exchange: Monthly Traded Volume - equity (US$ million)

- Change in trends
- Highest volume since early 2015

1) Considers a FIF of 0.55.

* Stocks with Market Maker
What comes next?
Continue executing our plan... with some adjustments

#1 Peru Today
Build the basis for development of local market
- Expand product offer
- Increase local and foreign investor participation
- Professionalize intermediaries
2014 – 2016

#2 Increase penetration and sophistication of local market
- Develop sophisticated products & processes
- Improve incentive mechanisms for market participation
- Increase participants sophistication through education
2017 – 2019

#3 Expand ties with other markets
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2020 – 2022

#4 Become a regional hub
- Build strategic differentiation in the region
- Increase connectivity with other foreign exchanges
2023 – 2025

May 2016
Food for thought and for discussion

- Having well developed Capital Markets is key for supporting growth in any country. It should be a key priority of every government agenda.

- This Agenda should be shared by the public and the private sector. It’s key to have a positive agenda between regulators and regulated parties.

- Regulation is good...
  ...until it becomes too restrictive or bureaucratic... Where is the balance?

- Development of Capital Markets is very different around the world and in regions.
  - Can we have regulation that fits all these cases?
  - Can regulation limit the development of less developed markets?
  - How do we have a regulation that incorporates more players to the game? What’s the benefit for a SME?
  - How do we protect and educate investors?

- How to deal with multi national regulation? Should we develop supra national regulation?
Thanks
2016 IOSCO Annual Conference

Changing times? How to face current and future challenges?
A view from Peru and MILA