ARGENTINA: MUTUAL FUND INDUSTRY

by

Steven T. Darch and Andrew Powell

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FOREWORD

Paucity of savings has been recognized as an important constraint limiting the growth and employment opportunities in most Latin American economies. While shortcomings in macroeconomic management are a principal cause, the underdevelopment of financial markets, products, and intermediaries can also raise intermediation costs and deprive savers of appropriate vehicles for savings.

Mutual funds constitute an important savings product and class of financial intermediary. Mutual funds provide small savers opportunities for risk diversification, professional investment management, and access to wholesale transaction costs. They significantly expand the investment opportunities available to small investors who are otherwise restricted to bank products or undiversified stock investments. They can simultaneously offer investors liquidity and foster long term regular saving habit.

While mutual funds are an enormous industry in developed countries, particularly in the U.S.A., they are still an emerging industry in most of Latin America. Only Brazil, Mexico, and Chile have significant mutual fund activity within their borders. The purpose of this series of papers is to make available better information about mutual fund regulation and operations in several Latin American countries, with a view to facilitate a comparison and improvement in their regulation and management.

This paper is part of a series of eight papers. The series is edited by Hemant Shah, Laura Mecagni, and Mike Lubrano, all from Latin America and the Caribbean Region of the World Bank. Papers are written by legal and mutual fund industry experts from Argentina (Steven T. Darch, Bernardo E. Duggan, Leonardo F. Fernández, and Andrew Powell), Brazil (Fernando J. Prado Ferreira), Chile (Santiago Edwards M., Alberto Eguiguren), Colombia (Rodrigo Puyo Vasco), Mexico (Teófilo G. Berdeja Prieto and Agustin Berdeja Prieto), and Peru (Fernando Bellido). Their time and contributions, and the cooperation of their respective institutions, are deeply appreciated.

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ABSTRACT

This paper is part of a series of papers on mutual fund regulations in six Latin American countries: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. The paper analyzes and describes the mutual fund industry of Argentina from a market perspective. After a brief history of the industry, the paper discusses the current and potential market and the benefits of the development of the mutual fund industry in Argentina. It examines the market structure and levels of costs and fees in the industry. The paper then turns to problems facing the industry including the pool of investible securities and certain regulatory hurdles. It briefly describes the sources of industry information including industry associations and rating agencies. Finally, it concludes with a perspective of the industry's future and proposes some regulatory changes.
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1. INTRODUCTION

The recent period of stability and economic growth in Argentina has allowed a deepening of the financial markets and a reappraisal of the modes of financial intermediation. Although the mutual fund industry has existed in Argentina for some time, there have been constraints to growth due to previous regulation and the economic environment. However, with the Convertibility Plan and new regulations, the funds received a strong boost and many now perceive that these investment vehicles are set for strong growth in the medium term.

However, there are also some hurdles to be passed. In this paper we review the history and the rationale for these funds in the Argentine context. We analyze the current market structure of the funds and provide some information on the costs of mutual fund investment. Finally, we review the current restrictions on growth for the funds and present our conclusions on the potential for the industry.

2. HISTORY OF MUTUAL FUND INDUSTRY IN ARGENTINA

Mutual funds in Argentina have a long and varied history. In Table 1 we present information on the growth of the mutual fund industry since 1975. In the post-war era, until 1992, the development of the mutual fund industry in Argentina was governed by Law 15,885 which was passed during Arturo Frondizi's government (1958-1962). This legislation contained strong restrictions on investments (investment could only be in shares of companies quoted in the stock exchange and up to 10% of the fund's net worth in national government securities) and was

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The authors would like to note that in the past year substantial growth in the size of the mutual fund industry in Argentina has occurred subsequent to the collection of data for this article.
generally perceived as restrictive and cumbersome. While the regulation of the industry adequately protected the investor (there is no record of bankruptcy or fraud), the performance and growth of these funds was slow and erratic.

In 1992, as part of the present government's policy of stimulating savings and the local capital markets, Law 15,885 was replaced by Law 24,083. The new legislation allows for mutual funds to invest in a far wider scope of publicly quoted instruments of both a variable and fixed income nature including both bonds and money market instruments. The regulatory agency (Comisión Nacional de Valores, CNV) also modernized operating rules allowing for the funds to achieve a greater diversification of risks, and issued decree 237/93 permitting the creation of closed-end funds which must obtain a rating by at least two licensed credit rating agencies.

While Law 24,083 is a great improvement, market participants complain that the legislation is restrictive in some aspects. For example, it does not allow the regulatory agency to approve the creation of funds not contemplated by the law (a case in point is that the law would not cover the creation of Real Estate Funds1). The Law also restricts in foreign equities to 25% of an open ended fund's net worth.

Table 1 shows the strong boost given to the funds by stability, the Convertibility Law and the new law regulating the industry. Since 1991, growth has been more consistent but remains relatively slow. By August 1994, there were some 66 mutual funds in Argentina. In November 1994, the figure rose to 86 (including 2 closed-end funds) with roughly US $389 million under management.

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1 In Argentina real estate loans are either through banks or through notary publics. However, bank mortagages are typically rather expensive and the notary system is rather informal and lacks liquidity and strong investor protection. Hence the market for real estate funds is potentially important in Argentina.
3. RATIONALE FOR MUTUAL FUNDS IN THE COUNTRY CONTEXT

In this section we describe the current mutual fund industry in Argentina. In order to gain an appreciation of the development of the industry, we analyze a set of pertinent environmental characteristics.

a) Market Capitalization of Investible Securities

As of end November 1994, capitalization of the Argentina stock market was about US $42 billion. Total Argentine bonds outstanding amounted to roughly US $56 billion of Government securities and US $13 billion of corporate issues. Therefore, total market capitalization of investible securities in Argentina is approximately US $111 billion. These figures indicate that although the mutual fund industry has grown significantly with the Convertibility Plan, it remains a small percentage of total market capitalization of securities.
b) Small Investor Universe

Small to medium sized investors (those with less than US $100,000 of savings) in Argentina continue to have relatively limited investment opportunities. For the small investor, the most common investment vehicles are current accounts and savings accounts in retail banks in both local currency and in dollars. In addition, small investors can purchase quoted stocks and public bonds.

Table 2 gives statistics on the deposits in the banking sector. If we estimate that 25% of current accounts, 75% of savings accounts, and 67% of time deposits are held by small investors then the total sum that small investors hold in the banking sector amounts to US $27.3 billion.

<table>
<thead>
<tr>
<th>Deposits</th>
<th>Total Deposits</th>
<th>Small Investors' % of total</th>
<th>Small Investor's Total Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account</td>
<td>6.5</td>
<td>25.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Savings Accounts</td>
<td>9.3</td>
<td>75.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Time Deposits</td>
<td>28.1</td>
<td>66.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Total</td>
<td>43.9</td>
<td>62.2</td>
<td>27.3</td>
</tr>
</tbody>
</table>

In Table 3, we estimate the small investors' holdings of stocks and bonds. We assume that 30% of the float of the stock exchange is held by local (Argentine) investors and 50% of that is held by small investors. This amounts to approximately US $2.5 billion. For bonds we estimate that some 30% are held by local (Argentine) investors and only 20% of that sum is then held by the small investors. This sums to US $3.4 billion. In total, we estimate that US $33.2 billion constitutes the total small investor universe with US $27.3 billion held in the banking system and US $5.9 in capital market investments. This is approximately 21% of the potential capitalization of the stock and bond markets (US $111 billion) and banking system deposits (US $43.9 billion). At present mutual fund assets (US $271 million) are equal to less than 1% of the total assets held by small-sized investors in banking system deposits and capital market instruments. Therefore there is a large potential for growth in this segment of the mutual fund market.
Table 3: Capital Markets and Estimated Size of Small Investor Base

<table>
<thead>
<tr>
<th>Market</th>
<th>Description</th>
<th>Billions of US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Market</td>
<td>Total stock market capitalization</td>
<td>42.0</td>
</tr>
<tr>
<td></td>
<td>of which, float</td>
<td>16.8</td>
</tr>
<tr>
<td></td>
<td>of which, Argentine investment</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td>of which, small investors</td>
<td>2.5</td>
</tr>
<tr>
<td>Bond Market</td>
<td>Total bonds outstanding</td>
<td>69.0</td>
</tr>
<tr>
<td></td>
<td>Public bonds outstanding</td>
<td>56.0</td>
</tr>
<tr>
<td></td>
<td>of which, Argentine investment</td>
<td>16.8</td>
</tr>
<tr>
<td></td>
<td>of which, small investors</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>Cooperate bonds outstanding</td>
<td>13.0</td>
</tr>
<tr>
<td></td>
<td>of which, Argentine investment</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>of which, small investors</td>
<td>--</td>
</tr>
</tbody>
</table>

Size of Argentine Investible Securities (Stocks + Bonds) | 111.0
Size of Small Investor Base in Capital Market | 5.9

Note: Data as of November 1994.

The small investor ought then to be an initial target market for mutual funds, especially those investors with savings of up to US $20-30,000. Banks tend to promote savings accounts and/or time deposits for these investors rather than investments in stocks or bonds and the figures above reflect these policies. Mutual funds remain a very small part of the system of financial intermediation in Argentina.

c) Professional Management

Professional management exists in Argentina, but it is rarely dedicated full-time to mutual fund management. While regulation calls for separate entities to manage mutual funds, financial institutions (primarily banks) own the majority of the funds and use resources from their institutions to run them. This results in a lack of dedication to the business and can also result in conflicts in the management of investments. We comment on this problem further below.

Fully dedicated professional management properly regulated should enhance the development of the mutual fund industry, forcing marginal players (of which there are many) to invest in the business or withdraw.

d) Savings In Transaction Costs

As most mutual funds are owned by financial institutions, transaction costs - brokerage and custody fees depend on internal policy/pricing decisions. However, mutual funds independently run, should obtain "corporate" rather than individual rates. Brokerage fees for individuals are normally 1% versus 0.35%-0.50% for corporations. Similar savings can be obtained on custody costs, money transfers, etc.
e) **Diversification And Risk Management**

It is virtually impossible for a small investor to obtain a diversified portfolio of capital market instruments in Argentina as a result of the minimum denominations of instruments and individual transaction costs. Access to risk management expertise or instruments (which are still limited given the embryonic stage of development of the local financial markets) are likewise almost impossible to obtain. Mutual funds with dedicated professional management should be able to create diversified portfolios and apply risk management skills.

f) **Greater Liquidity**

Open ended funds (which constitute the vast majority of mutual funds in Argentina) provide substantially more liquidity to the small investor than the majority of holdings of individual equity or fixed income instruments. Fund managers have the right to reject large investors if they feel the investment could distort the liquidity balance of the fund or to establish special conditions for subsequent withdrawals from the fund. Money market funds require specific "confirmed" bank lines to cover any extra-ordinary liquidity crisis.

4. **MARKET STRUCTURE**

a) **Current Market Size**

As of end November 1994, there were some 86 mutual funds in Argentina including 2 closed-end funds. The market structure of these funds can be broken down by various classifications. Table 4 shows the number of open-ended funds according to their principal investments. Most are equity funds, however the number of fixed income funds of both pesos and dollars has been growing.

<table>
<thead>
<tr>
<th>Type of Fund</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Income (Equity) Funds</td>
<td>53</td>
</tr>
<tr>
<td>Fixed Income/Money Market Funds (in Pesos)</td>
<td>15</td>
</tr>
<tr>
<td>Fixed Income/Money Market Funds (in Dollars)</td>
<td>14</td>
</tr>
<tr>
<td>Fixed Income/Money Market Funds (Pesos and Dollars)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>84</td>
</tr>
</tbody>
</table>

Table 5 illustrates the break down in total value of funds by investment type. Although equity funds are the most numerous, they also tend to be smaller. In terms of value, fixed-income funds are now a larger group.
Table 5: Break Down of Funds By Value

<table>
<thead>
<tr>
<th>Type of Fund</th>
<th>US$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Income (Equity) Funds</td>
<td>126.7</td>
</tr>
<tr>
<td>Fixed Income/Money Market Funds (All Currencies)</td>
<td>188.8</td>
</tr>
<tr>
<td>Closed End Funds</td>
<td>73.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>389.4</strong></td>
</tr>
</tbody>
</table>

Although the average size of funds remains very small, some funds have now grown to a reasonable size. There are, for example, 3 open ended funds of more than US$ 20m (two equity and one fixed income/money market). Furthermore, the mutual fund structure in Argentina remains dominated by families of funds so the industry is more concentrated than it first appears. These families are centered around particular banks who act as custodians (most commonly the large national banks plus one or two wholesale and international banks). The main families of funds and appropriate capitalizations are illustrated in Table 6.

Table 6: Main Families of Funds in Argentina by Bank/Custodian (October 1994)

<table>
<thead>
<tr>
<th>Bank or Custodian</th>
<th>No. of Funds</th>
<th>Capitalization (US$, '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco Galicia</td>
<td>3</td>
<td>42,218.0</td>
</tr>
<tr>
<td>Banco Crédito Argentino</td>
<td>3</td>
<td>12,113.9</td>
</tr>
<tr>
<td>Banco Francés</td>
<td>2</td>
<td>27,666.4</td>
</tr>
<tr>
<td>Banco Quilmes</td>
<td>4</td>
<td>14,528.7</td>
</tr>
<tr>
<td>Banco Roberts</td>
<td>4</td>
<td>19,016.3</td>
</tr>
<tr>
<td>Banco Mariva</td>
<td>4</td>
<td>47,135.8</td>
</tr>
<tr>
<td>Citibank</td>
<td>3</td>
<td>8,018.3</td>
</tr>
<tr>
<td>Banco Boston</td>
<td>4</td>
<td>35,327.0</td>
</tr>
<tr>
<td>Credit Lyonnais</td>
<td>2</td>
<td>13,121.5</td>
</tr>
</tbody>
</table>

Nevertheless, the capitalization of the stock-market in Argentina represents only about 16% of GDP (figures as of Dec. 1993) and the mutual funds represented only 0.7% of the stock market capitalization. This implies that the mutual fund industry is only about 0.1% of Argentine GDP.

b) Marketing And Distribution Arrangements

As illustrated above, the vast majority of the mutual funds are owned by financial institutions who view them as "another" product to be sold through their branches. Although there are no specific figures, mutual fund sales through bank branches are estimated to be very low indeed. We believe the main reason for this is the lack of a dedicated (& knowledgeable) sales force. Some wholesale banks and small retail banks have distribution agreements with regional banks and brokers to handle distribution but again with very little success as it is viewed as just another product with marginal profitability to the distributor. The reality is that there is no dedicated sales force as yet for mutual funds. However, we believe there may be a change in
the near future especially within the foreign bank sector. As a result of almost non-existent marketing, the population as a whole is ignorant of this investment alternative.

c) Providers Of Mutual Fund Managers

As mentioned above, there are very few dedicated fund managers at present. In fact portfolio managers (as opposed to financial product sales individuals or traders) are an embryonic breed in Argentina. Even in the initial stages of the development of mutual funds most "investment managers" have been hired from treasury/trading functions in banks. However, the basic financial skills exist and we expect portfolio management as a profession to grow alongside the growth of the industry itself.

5. COST OF MUTUAL FUND MANAGEMENT

a) Levels of Management, Marketing, Custodial and Transaction Fees, and Expenses

The oldest mutual funds in Argentina are the variable rate or equity funds. These funds typically have very high commissions which have oscillated around 8% on an annual basis. The fixed income funds/money market funds are the newer products in Argentina and these earn commissions that fluctuate between 1.5% and 3% per annum. In addition, for many funds, investors have to pay withdrawal fees at the time that they decide to recoup their investments, depending on fund policy. These fees generally depend on the period of the investment. They are typically decreasing with the period of investment and may be as follows:

Between 0 and 60 days: 2.0%
Between 60 and 120 days: 1.0%
Between 120 and 180 days: 0.5%
More than 180 days: 0.0%

The structure of the fees can then be regarded as providing an incentive to attract investors with longer holding periods.

b) Analysis of Fees: Reasonableness, Competitiveness, Problems in Reducing Costs and Fees, Future Trends.

Clearly, the level of total commissions charged by the majority of mutual fund managers is extraordinarily high when compared to international standards and even to the returns obtained for investors in 1994.

Some fund managers are beginning to reduce their overall commissions, especially on equity funds. However, the problem is not really one of competition or what the market will bear, but as mentioned, one of a lack of dedication to mutual funds as a serious business independent from deposit gathering or banking services in general. This lack of focus or dedication results from the financial institutions' fear that the growth of mutual funds will result in a decline in cheap deposits and, whilst they may well believe in the long term benefit to the
capital markets, the banking industry's cost structure is ill-prepared at present, to accept more competition especially in the retail or small investor segment.

However, the growth in the overall number of funds since the new Law would suggest that it will be difficult to stop the trend towards the development of mutual funds. Also as the banking industry consolidates over the next 2/3 years, we would expect certain sectors within the financial services industry to focus on the mutual fund product. The first major hurdle to be overcome is that of educating the investors with regards to both the benefits and to the risks of these new investment opportunities.

6. PROBLEMS OF LACK OF INVESTIBLE SECURITIES

One problem in the Argentine markets remains the limited range of investible securities that are quoted in the local market. Many Argentine securities are not traded but remain within the hands of large share-holding groups and secondly, many Argentine corporations issue securities outside of Argentina (eg: in Luxembourg). This causes problems for mutual funds to find suitable corporate investments.

In the case of equities, there is also a general lack of liquid stock in which to invest. In the local market there are not many in excess of 12 stocks with large daily volumes and the remainder may be relatively illiquid on certain days.

To a large extent these problems are self-fulfilling. Local companies do not issue locally as there is as yet a limited set of institutional investors. However, if the mutual fund industry grew then these would aid in the placement of suitable instruments. Similarly, liquidity has self-fulfilling characteristics. A certain stock may not be liquid as large institutional investors avoid the stock precisely due to the lack of liquidity.

On a more regulatory issue, there are no specific requirements for the mutual funds to invest in rated securities. If the security is quoted and is open to public investment, then the mutual funds can also purchase subject to their general restrictions on asset allocation. Hence, regulation does not raise further problems in this context.

7. LEGAL AND REGULATORY HURDLES TO GROWTH OF MUTUAL FUNDS:

a) Registration and Approval

The process of registration and the approval of the mutual funds has improved enormously since the new Law. It is reported in the industry that the new process is relatively efficient and an application for approval can be turned around within 90 days which compares reasonably well with international standards.
b) Investment Guidelines

Again, since the new Law the mutual funds can invest in any type of security that has been allowed to be offered to the public and including precious metals, foreign currency assets, futures and options contracts, instruments issued by financial entities authorized by the central bank. The law states that the only restrictions on investments are as follows:

1) The fund cannot invest in any financial securities issued by the fund management company or its custodian or in any other mutual fund;
2) cannot invest in financial securities issued by other entities controlled by the fund management company or custodian to a sum of more than 2% of the capital or liability of the entity;
3) cannot invest in shares, debentures (simple or convertible) and bonds of a company that sum to more than 10% of the company's total liability according to the last balance sheet; and
4) cannot invest more than 30% of the total fund capital in a single Argentine government bond issue.

c) Capital Requirements

In addition, there are minimum capital requirements that may negatively influence the growth of mutual funds. However, the Law requires that an entity has a minimum capital of only some US$50,000 to start one mutual fund and an additional US$ 12,500 for each new mutual fund that the entity administers. This does not institute a major barrier to entry for the business and indeed, there is an argument (which we come back to below) that the capital requirements are too low in the sense that they promote a very fragmented structure which does not promote dedicated investment management.

d) Taxation

The taxation regime for the mutual funds corresponds to the tax requirements on the instruments in which the fund invests. Hence, mutual funds in common with individual investors do not pay tax on either equities or corporate or government bonds. Therefore, the tax system currently neither provides an incentive nor a disincentive for the use of funds as an investment vehicle in comparison to investing directly. If a tax on equity or fixed income investment was introduced in Argentina, then one potential policy tool, to aid in the promotion of the industry, would be to maintain the current tax free status, at least up to a maximum individual investment level.

8. INFORMATION REGARDING MUTUAL FUNDS AND POSSIBLE SOURCES OF PUBLICITY

The majority of mutual fund management companies are members of a Chamber of Mutual Funds (Cámara de Fondos Comunes). Although the Cámara has a relatively small
budget and tends to play a secondary role from a political point of view (it is subservient to the Banking Association), it is an extremely useful source of information on the industry.

There is no detailed publication available to the public on the subject of mutual funds in Argentina, although articles do often appear offering performance rankings and on the industry as a whole. These appear in particular in the financial sections of the national newspapers, the financial newspapers and certain other financial magazines e.g.: Clarín, Ambito Financiero, Cronista Comercial, La Nación, Mercado, Apertura, Negocios.

The publicity issued by a mutual fund is also regulated. Information and publicity must be approved by the Comisión Nacional de Valores (CNV). The only strong restriction imposed by the Law is that mutual funds cannot promise to guarantee a specific return. In addition it is obligatory for the fund managers to ensure the following information is released:

1) daily publication of the value of the fund’s shares in the financial press;
2) daily publication of the value of the fund in the Stock Market bulletin (el diario de la Bolsa);
3) daily release of the value of the fund to the relevant Chamber of mutual funds (Cámara Cámara de Fondos Comunes);
4) at least monthly release of the complete asset composition of the mutual fund in the Stock Market Bulletin (el diario de la Bolsa); and
5) at least weekly publication of the complete asset composition of the fund in each local sales office of the mutual fund.

a) Rating Agencies

The role of rating agencies in Argentina is relatively limited as they remain a somewhat recent development. There is no specific requirement for standard mutual funds to be 'rated' although closed end funds do require a rating from two accredited agencies. However, one area where such agencies have become important is with relation to the Argentine pension funds (the AFJP’s). Pension fund (AFJP) managers can only invest in those mutual funds which have been rated by at least two credit rating agencies. As this is potentially a significant investment source we would expect not only more funds to be rated but also specific funds to be 'tailor-made' to pension fund needs. We do expect the 'ratings' of reputable agencies to become a source of some publicity over time.

9. CONCLUSION

We believe that the mutual fund industry in Argentina could grow very strongly assuming that economic stability is maintained in Argentina. The authorization process for mutual funds is reasonably efficient and the regulatory framework reasonably flexible. Potential demand for such funds comes from small to medium-sized investors where the lack of and/or the cost of trading directly in financial securities channels most savings from this group into bank deposits. However, the banking system in Argentina is extremely expensive and cumbersome offering low returns. The hurdles to the growth of this industry in Argentina are at least four-fold.
1) Deficiency of human capital. Dedicated professional management is extremely rare and there may simply be a problem in the availability of suitable fund managers.

2) Considerable investment is required by the industry, not only in educating fund managers but also in educating the public concerning the opportunities of this form of financial intermediation.

3) The current market structure does not provide the right incentives for the industry to make the investments as required. The industry is faced with an institutional problem that most funds are currently managed by the banking sector. This causes a perceived conflict of interest for the banks between promoting investment in mutual funds at the cost of diverting assets away from deposit-taking instruments (savings deposits, time deposits).

4) The Argentine public has a (healthy) distrust of new financial investment schemes and in many respects are "safety first" investors. This is a potential hurdle for independent fund management companies because investors in Argentina are reputation conscious.

The institutional problem, that most funds are managed by the banking sector, may have a potential solution within the regulation of the industry. Currently, the spirit of the law calls for a separate fund management company and that there should be some separation between the host bank/custodian and fund managers. However in practice, although all funds in Argentina undoubtedly obey the letter of the law, dedicated fund management groups remain a rarity. One possible solution would be to tighten the law in this regard and attempt to enforce further separation. The trade-off is between the benefit of solving the problems of conflicts of interest experienced by banks versus the increased costs of fund management. Enforcing such a separation might be difficult given the structure of the industry. An alternative solution would be to raise substantially the minimum capital requirements which currently are rather low. This may result in a more concentrated industry with fewer, larger funds with resources to employ dedicated fund management teams.

Mutual funds managed under the direction of a bank may provide some name-recognition assurances to alleviate the concerns of safety-first investors, but they do not provide appropriate incentives for growth in the industry. Independent fund management companies need first to establish bona fide reputations in order to attract investors. This could provide an opportunity for international banks or institutions with established reputations to encourage the development of the industry by acting as sponsors of independent mutual fund companies.2 Our belief is that independent fund management companies that proved to be successful in Argentina would have important effects on the remainder of the financial community that would, as a response, seek to

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2 This could be a private bank or an international institution, for example the International Finance Corporation.
develop more business in the mutual fund industry. This argument implies that domestic private banks may not be willing to carry the costs of the development of the industry, and also provides a theoretical rationale (due to the externalities from education, etc.) for the involvement of a public sector institution in the development of the mutual fund industry.
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