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ARGENTINA

ASSESSMENT OF CAPITAL MARKET MECHANISMS FOR FINANCING OF SMES

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THE WORLD BANK GROUP
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ABBREVIATIONS

AFIP	Federal Public Revenue Administration
AIM	Alternative Investment Market
ALyC	Settlement and Clearing House Agents
ANSES	National Social Security Administration
BCBA	Buenos Aires Commercial Exchange
BCRA	Central Bank of the Republic of Argentina
BICE	Investment and Foreign Trade Development Bank
CNV	National Securities Commission
CPDs	Deferred Payment Check
FCI	Common Investment Funds
FF	Financial Trust
LMC	Capital Markets Law
MAV	Argentine Securities Market (a subregional market)
MI	Marketable Instrument
MSMEs	Micro, Small and Medium Enterprises (MiPyMES)
NAFIN	Nacional Financiera (Mexico)
IFRS	International Financial Reporting Standards
NOMAD	Nominated Advisor
GDP	Gross Domestic Product
SMEs	Small and Medium Enterprises
SEC	Securities and Exchange Commission
SGR	Reciprocal Guarantee Firm
SRL	Limited Liability Partnership
SSN	Superintendent of Insurance

I. EXECUTIVE SUMMARY

This report identifies and describes aspects that could aid in facilitating the financing of Small and Medium Enterprises (SMEs) through instruments that are channeled via the capital markets. There is a generalized consensus in regard to the impact SMEs have in employment and the importance for their development of having the proper sources of financing. The activities performed in the preparation of the document included reviews of legal and regulatory frameworks, analyzing statistics, assessing certain regional experiences and interviewing key players in the local market.

There are number of factors that would explain the low development of SME financing through capital markets. Highlighted among others are:

- the high level of informality among SMEs;
- the initial approach of SMEs to the loan market versus the capital market;
- the current inflationary and interest rate environment discouraging formal financing;
- the high fixed expenses for the structuring of an issue (that can only be handled with high value issues which, oftentimes, are not aligned with the financial needs of SMEs);
- the limited development of the capital market in general (not only for SMEs);
- the lack of specialization in the assessment of SMEs by credit rating agencies;
- a certain lack of depth and liquidity in the post-dated check CPD market (to ensure a dependable and secure source of liquidity is available for SMEs);
- the still very recent specialization in the SMEs segment on the part of the market, agents and the CNV;
- a scarce base of investors willing and able to analyze and take on SME risks;
- a factoring scheme that has not prospered because of design deficiencies;
- a lack of explicit consideration for private placement schemes; and
- a certain lack of interest on the part of banks in encouraging their SME clients to enter into public offerings or in securitizing the SME lending portfolios they have on their balance sheets.

In terms of proposals to drive and facilitate SME access to capital market financing, these need to take into account the obstacles that arise from them. There is also a need to determine how these would be overcome. Mechanisms need to be established that, on the margin, incentivize SME issuers to enter in public offerings and investors to take on SME risk.

While the financing of SMEs through the capital markets has been growing it has been concentrated in short-term instruments. The post dated check (CPD),[1]is the main financing instrument of SMEs in capital markets, it is widely used, well-known, and has certain legal as well as operational advantages compared to other short-term instruments. In any event, it merits highlighting that the growth of the operations of the CPD have been influenced by regulatory requirements for institutional investors (e.g., insurance companies) to invest in SME instruments in the capital markets.

The trading of deferred payment checks is over the short-term and exhibits differential interest rates according to modality and, to a lesser degree, term. The operations are focused on checks endorsed by reciprocal guarantee firms - SGRs (non guaranteed transactions have lower trading). The digitization of CPDs was recently incorporated, facilitating their negotiation operations by SMEs in the country's heartland.

Despite the CNV having developed a specific regime for the public offering of SMEs, the number of firms listed is minimal. The Argentine Securities Market (MAV) of Rosario in Santa Fe Province, has positioned itself as a specialized market in SME operations. It has moved forward in certain initiatives to facilitate bringing SMEs to capital markets through little developed instruments and the dissemination to SMEs of available instruments.

The new SME law reduces tax pressures and incorporates amendments to improve financing options for SMEs. The small business initiatives law, for its part, sets the terms and a series of benefits to facilitate the birth, development and financing of small business initiatives.

The idea of a marketable instrument (MI) for SMEs, that involves a number of SMEs under the same instrument and that is covered by SGRs, would reduce the costs of a public offering. It would also enable the access of SMEs to financing in the capital markets at longer terms than are currently available. Furthermore, the design of simplified prospectuses for the authorization of public offerings would allow reducing costs and would incentivize SMEs - in individual fashion - to move forward with public offering instruments.

The possibility should also be assessed of setting up an intermediate agency or institution to authorize issuances for SMEs' access to capital markets. Its objective would be to have an intermediary who would be responsible for the information and compliance with the requirements of the public offering and the quotation of smaller firms, to facilitate SMEs approaching the market. Likewise, the incorporation of a figure of "suitable SME advisor" could be considered, subject to minimum regulation and supervision.

[1]A CPD (cheque de pago diferido) is a check written with a future cashable date and it is used so that SMEs can obtain cash financing immediately discounted by an interest rate, in exchange for giving the check to an intermediary for future cashing. The post dated check system is effectively used as an alternative to factoring in Argentina.

In addition, the drive toward more standard factoring requires legal and operational changes that the Government is assessing. A proposal under study includes the creation of the MSMEs[2] electronic invoice, for its recording, acceptance and negotiation in the market. Said instrument would have the character of an enforceable document, which facilitates collection on the part of investors in the event of non-payment of the instrument at its maturity.

Other instruments that need to be promoted are marketable instruments (MIs) convertible to shares. These would fix the problem of the current low value of SMEs, securitization funds or sector investment funds (that would allow reducing the costs of the public offering with instruments adapted to the financial needs of SMEs).

In like fashion, there is a need to review the current prohibition of making a public offering in securities that will not be serialized. There would also be a need to provide a certain level of transparency and a minimum regulatory framework to private placements (to use this instrument as a prior step to the entry of SMEs as public offerings). Likewise, there would be a need to extend the possibilities and players (in addition to SGRs) that provide guarantees to SME instruments in the capital markets.

To encourage investors, tax breaks could be considered for those who acquire SME shares. This would be for those that open their capital to a public offering, as well as the considering the character of an enforceable document for all SME debt instruments in the capital markets (which would increase investor protection, increase the demand for capital market instruments and would reduce the yield required.

It would additionally be necessary to promote the liquidity of the securities starting out with mechanisms such as market makers. It would also be necessary to include alternatives to facilitate the analysis of the SMEs listed and benefit these with the negotiation of their instruments in the secondary market.

[2] Micro and SME firms.

II. INTRODUCTION

1. This document has the purpose of identifying and describing actions that could aid in facilitating the financing of Small and Medium Enterprises (SMEs) through instruments channeled via the capital markets. By way of precedent, it is worthwhile to mention the document "*Argentina Capital Market Assessment & Development Prospects*" of the World Bank (October 2016) where a diagnosis was performed (along with certain recommendations) of the Argentine capital markets in general and including sectoral aspects within which Small and Medium Enterprises (SMEs) and the capital market were analyzed.

2. There is a generalized consensus with regard to the impact SMEs have on employment and the importance of their development and having the proper sources of financing. Different studies reveal the high levels of employment that SMEs demand, as well as the need they have for the availability of more extensive financing under better terms. Although the banking sector is and will remain at the forefront of the external financing of SMEs, the capital market provides opportunities to extend and diversity this financing.

3. Activities performed for the preparation of this document included reviews of the legal and regulatory frameworks, statistical analyses, assessment of a few regional experiences and interviews with key players in the local market.[3] The relevant laws and regulations that impact the financing of SMEs directly or indirectly through the capital markets are: Capital Markets Law (current and draft bill in Congress), Rules of the National Securities Commission (CNV), New SMEs Law, Entrepreneur's Law; among others. Also evaluated were statistics on current SME financing operations in the capital markets, as well as experiences in the treatment of SME financing in capital markets by a few Latin American countries.

4. The structure of the document comprises the following sections: (a) characteristics of SME financing and the main obstacles they face; (b) analysis of proposals; (c) key players; (d) main conclusions; and (e) annexes including comparative country cases.

[3]The list of institutions and persons surveyed is in the Annex. The team expresses its appreciation to these institutions and individuals for the information and comments received during the interviews carried out.

III. CHARACTERISTICS OF FINANCING SMES AND KEY OBSTACLES

Some general characteristics of the SME sector and its financing

5. SMEs represent 14% of total firms, 43% of total employment[4] and generate 51% of the Gross Domestic Product (GDP). In 2014 there were 82,385 SME firms (defined as those having between 10 and 200 employees) generating 2.8 million jobs. The share of SMEs in total firms has not changed significantly in the last decade (in 2004 it was 12% versus 14% in 2014). The share of employment and GDP of SMEs in Argentina is slightly lower than that observed in high-income countries and 3 times higher than in low-income countries (which illustrates the importance of these firms as a country's development increases). On the other hand, Argentina has a low density of firms (27 per 1,000 inhabitants) compared to some developed countries (around 60) and countries the region with a similar level of development with Argentina (with an average of 50).

6. The level of financing of Argentina in general, both via the banking system and the capital markets, is very low. In recent years the share of credit in the private sector in terms of GDP was 13%, while market capitalization was only 6% and the value of total shares traded is minimal (0.2% of GDP). These percentages are very low not only compared to developed countries, but also in comparison with countries in the region.

7. Traditional sources of financing of industrial SMEs have been their own resources, followed by bank financing and - with a very limited share - the capital markets. According to the survey by the SME Observatory, in 2015, 54% of the financing sources for industrial SME firms were the resources of the firms themselves (reinvestment of profits and other), while financing by the banking sector amounted to 35 % (the rest of financing gets completed with resources from public programs and others). In recent years, there has been a slight decline in own resources as a source of financing in favor of an increase in bank financing. The financing of investment through the capital markets has been very small, which is why financing from it is directed mainly at financing working capital.

8. The reasons why SMEs consider they do not have sufficient bank financing for their investment are varied, some of which could be served by the capital markets. Among the most relevant factors are: (a) the interest rate is very high; (b) SMEs consider that they do not comply with the conditions requested by the banks (28%); (c) their application was rejected by the bank (21%); (d) the granting of bank financing is less than required; (e) the credit repayment period is less than desired (4%). With respect to the last two factors described (reduced term and

[4] According to the 2004 Economic Census, the share of total SME employment would be higher (51%)

amount), as well as the high interest rate, they could be tackled through some instruments in the capital markets.

Funding of SMEs through the capital market

9. In terms of the use of alternative sources of financing, 20% of SMEs surveyed reported having negotiated post-dated checks (CPDs) through the capital market. Only a very small percentage of the SMEs surveyed (between 1% and 2%) reported using other capital market instruments, such as Short and Long Term Negotiable Obligations and Financial Trusts (FFs).

10. While the financing of SMEs through the capital market has been growing it has been concentrated in short-term instruments. Of the financing received by SMEs from the financial sector, 95% comes from banks and only 5% from the capital market. Additionally, although it has been growing, SME participation in the capital market was only 10% in 2016. Likewise, in the last six years, total SME financing through the capital market increased from an annual average of USD 350 million (2007-2010) to an annual average of USD 865 million in 2015-2016.

11. In the same period, there was a significant change in the composition of the instruments used: CPD went from representing 65% of the total (2007-2010) to 94% in 2015-2016, to the detriment of the trusts (FFs), which fell from an average 35% to 3% in 2016. Marketable obligations (MIs) exhibited certain volatility in recent years, although none of them represented more than 4% of total SME financing through the capital market (the MIs experienced a significant increase in 2016). Stock issues have been very limited and were only observed in some years (2011 and 2012), representing less than 2% of total financing.

The Post-Dated Check (CPD) Instrument

12. The CPD is a widely used, well-known instrument, and has certain legal as well as operational advantages compared to other short-term instruments. The trading of CPDs has replaced factoring, since the latter has not been able to develop in Argentina. The CPD is an enforceable document (facilitating legal actions to demand its collection in case of default), it has security standards common to a check, payment can be made by the clearing house and there are publicly accessible databases of issuers of checks draw without sufficient funds for payment at maturity. There have been several attempts to promote invoices as a negotiable credit instrument, but they have not prospered. Promissory notes, with slightly longer maturities than CPDs, have begun to be used; these are employed under a guaranteed modality and are denominated in USD (although they are executed and settled in local currency at the current exchange rate).

13. The growth of SME financing through the capital market was influenced by regulatory requirements for institutional investors. Insurance companies, by regulation of the Superintendency of Insurance (SSN), were obliged to invest a certain minimum percentage of their portfolio[5] in financing instruments for SMEs. The vast majority of companies chose to meet this requirement by subscribing a share interest in one of the 28 Common Investment Funds (FCIs) for SMEs created, whose managed assets were mainly the CPDs of SMEs. This investment requirement generated a few market distortions, such as sharp interest rate swings associated with the maturity of the investment obligation (in some cases, at levels below the interest rates paid by "prime" companies). In January 2016, this requirement was significantly reduced (minimum investment of around 3%), establishing a gradual schedule to end compulsory investment throughout 2016 and 2017.

14. Reciprocal Guarantee Firms (SGRs) play a predominant role in endorsing SME instruments such as CPDs issued in the market. Approximately 90% of the CPD checks traded through the capital markets are guaranteed by SGRs. SGRs also provide certificates of guarantee to SMEs to facilitate access to SME financing (whether in the banking sector, capital market or commercially). The contributions to the risk fund of the shareholders of the SGRs are deductible from income tax, and must of at least 80% and at most 4 times the risk fund. There are 32 SGRs that provided coverage for CPDs in March 2017, with the top 5 comprising more than 50% of the total (of these, 2 SGRs are sectoral linked to the agricultural and industrial sectors).

15. The trading of CPDs is for the short-term and exhibits differential interest rates according to modality and, to a lesser degree, term. The legal framework establishes that the maximum duration for a CPD is one year. Approximately 50% of traded CPDs backed by SGRs have a residual maturity of 180-360 days (the rest is less than 180 days). For the other modalities, the residual term is less (only a quarter of such CPDs are for a term of 180-360 days). In terms of interest rates, these are quite volatile, with sponsored, directly guaranteed or not guaranteed CPDs by the MAV, ranging between 600 and 800 basis points above the interest rate of CPDs backed by the SGRs.

16. The trading of other CPD modalities, in addition to those that are guaranteed, have had a very modest (though growing) share. The regulation provides, in addition to the guaranteed CPD, for other modalities of trading of CPDs such as (i) sponsored and (ii) direct trading. Regarding the first “sponsored” modality, the issuing firm (the debtor/purchaser firm) is interested that the CPD it issues in favor of its suppliers of goods and services can be traded on

[5]These percentages varied according to the type of insurance: 18% of their investments for general insurance, 14% for life and retirement, and 8% for occupational risks.

the securities markets, for which it must comply with a series of formalities and information requirements[6] (balance sheets, cash flow, etc.). This has some elements of reverse factoring.

17. The direct trading modality consists of CPDs offered for trading by the beneficiary of the check, whether the CPD is guaranteed or not. Guarantees of direct traded CPDs may be provided by the same agents and/or markets (e.g., the Argentine Securities Market – MAV in Rosario), as well as by warrants, cash contracts for goods, or other assets. In March 2017, 2.1%, 1.0% and 2.8% of the total traded in the MAV (the market where CPDs are traded) corresponded to (a) sponsored CPDs, (b) guaranteed by the MAV, and (c) direct but unsecured; respectively; with 95% of the remaining CPDs traded corresponding to instruments guaranteed by SGRs.

18. The digitization of CPDs was recently incorporated to facilitate their trading by SMEs in the country's heartland. This modality, applicable to the CPDs backed by SGRs, allows the securities registry agency (Caja de Valores) to capture and process the CPDs for trading without having to wait for it to be to be physically forwarded. This facilitates the trading operation of CPDs of those SMEs that are physically far from where the market operates.

Securities Issuances by SMEs

19. Despite the CNV having developed a specific regime for the public offering of SMEs, the number of firms listed is minimal. The regime provides for exemptions from certain formal requirements (e.g. the establishment of the Audit Committee, having accounting statements in accordance with International Financial Reporting Standards -IFRS-, exclusion from payment of public offering authorization fees) for the public offering of those firms that meet the requirements to qualify as SMEs (having total annual revenues below a given amount, which varies according to the economic sector where the company operates).[7]

20. The regime establishes the possibility that SMEs that want to enter into a public offering carry out a pre-qualification process to be performed by the market, the conclusion of which is not binding on the CNV. Specific requirements are established for the issuance of shares as well as Marketable Instruments (MIs). Only qualified investors[8] may acquire the public offering instruments of SMEs, unless they are backed by a SGR for at least 75% of the total amount issued. Currently, only 50 SMEs are under the public offering regime, with 110 firms having been listed and subsequently leaving the public offering regime.

[6] Usually such firms are already under the public offering regime (given that the information is already public).
[7] Agricultural:$230 million; Industry and Miming:$760 million; Trade: $900 million; Services. $250 million Construction: $360 million.
[8] Defined as public entities, banks, common investment funds, joint-stock companies, cooperatives, people from abroad, the National Social Security Administration (ANSES), partnerships (with assets above than $ 1.5 million) and individuals (with assets above $700 thousand).

21. The MAV has positioned itself as a market in SME trading. After making an agreement with other markets (including exchanging shares with them), MAV has specialized in financing operations through the capital market for SMEs. In this context, it concentrates all trading operations of financing instruments for SMEs (with CPD trading as the most relevant), aiming to achieve specialization in operations that allow reducing costs and have relative advantages to service the SME segment in a viable manner (for both issuer and investor) and being efficient.

Financial Trusts (FFs)

22. The MAV has moved forward in certain initiatives to facilitate bringing SMEs to the capital markets through less developed instruments and the dissemination to SMEs of available instruments. One of these instruments is the establishment of a global SME financial trust (FF) program that involves lower legal costs, greater speed in the approval of public offerings and payment of authorization fees only for amounts actually issued. Likewise, the MAV and the CNV have progressed in the hosting of events - in localities of the country's heartland - to advertise capital market instruments available to SMEs.

Regulatory and Tax incentives

23. The new SME law (approved in July 2016) reduces tax pressure and incorporates amendments to improve financing options for SMEs. For the firms that qualify and register as SMEs (to date, a little over 25% of the total have done so) they can apply to the income tax on earnings, what they pay of the debit/credit tax, they are also exempt from the minimum presumptive income tax, they have an extended term for the payment of Value Added Tax (IVA) and qualify for the investment promotion regime (which allows deducting up to 10% of investment costs against the earnings account). Likewise, the possibility was established for the Micro, Small and Medium Enterprises Guarantee Fund (Fogapyme) to provide guarantees for instruments issued by SMEs under the public offering scheme, in addition to allowing such instruments to be eligible for the Interest rate subsidy scheme. Finally, the Law incorporated the possibility for Limited Liability Companies (SRLs), one of the legal entities for SMEs, to issue MIs.

24. The law to promote capital for small business initiatives additionally sets the terms and a series of benefits to facilitate the birth, development and financing of small business initiatives. This law (approved at the end of March 2017) facilitates the steps and deadlines for the creation of new companies (e.g., the company can have a single partner, the object of the business can be broad and it allows using signatures, books and digital authorizations), it provides tax incentives (deductions from income tax) for investors in registered enterprises, enables collective financing schemes (crowdfunding), creates investment funds with partial contributions from the public sector to co-invest with the private sector and boost project

development, encourages the creation of accelerators, and facilitates access to "seed fund" loans for those starting a new venture.

Main constraints impeding the financing of SMEs through the capital market

25. There are number of factors that would explain the low development of SME financing through capital markets. Overall, the capital market is underdeveloped, not just for SME financing. The high levels of inflation threaten the possibility of issuing medium and long-term instruments, which is where the capital market would offer greater relative advantages. There are other specific SME financing issues linked to the high informality and tax pressure of the sector; high fixed expenses in the structuring issues; need for specialization in SME financing operations; lack of SME knowledge of the existence of financing instruments through the capital market; and a genuine investor base demanding public offering instruments with SME risk is lacking, among others.

26. As well, the current context of the Argentine money market, with high nominal interest rates, discourages and hinders long-term financing. This applies particularly in local currency at fixed interest rates. The alternative of using variable interest rates or instruments in foreign currency presents challenges in terms of the mismatch that could be generated to SMEs, while the use of units indexed by price indices is restricted to instruments that are not generally applicable to SMEs.

27. The high informality of SMEs is a limiting factor for their access to the capital market. This concept encompasses not only tax evasion, which translates into financial statements and income statements that underestimate the performance of SMEs, but also in organizational and corporate governance aspects. The requirement to prepare and send periodic information to the CNV of those SMEs that are under a public offering demand that they have the adequate procedures and controls to carry out this task satisfactorily. On the other hand, the tax pressure is a disincentive to formalization as well as investment by SMEs.

28. Structuring an issue also involves a fixed expense that can only be handled with high value issuances that oftentimes, are not aligned with the financial capacity or needs of SMEs. These costs involve the preparation and building of abundant information to be sent to the CNV, fees for the services of risk rating companies, among others. Taking into account such costs, the minimum amount required for a MI issue to be viable is around $10.0 million. These costs generate a "spread" between what the investor receives and the expenses that the issuer faces that discourages the public offerings of SMEs.

29. Credit rating agencies have not specialized in the assessment of SMEs. The top credit rating agencies in the market have not specialized or developed a specific methodology to analyze and qualify SMEs (e.g. there is no specific SME rating system), and they tend to

downgrade SME issue ratings because of their lack of liquidity. While there are new credit rating agencies (e.g. universities) entering the market with a more targeted approach to SMEs, they have not yet generated a "*track record* " that is sufficient to generate impact and confidence in the market.

30. While CPD is the most developed SME capital market instrument, it still lacks certain depth and liquidity to ensure that it is a reliable and secure source of liquidity for SMEs. This is reflected in experiences of SMEs that, on some occasions, have wanted to discount CPDs without finding bids. This uncertainty could discourage SMEs from entering the CPD market even though interest rates are more affordable than those of other financing providers (e.g. banks).

31. The specialization by the market in the SME segment, as well as by agents and the CNV is relatively recent and has not deepened. Given the marked differences in characteristics that exist between large firms and SMEs, it is necessary and desirable to specialize different players in the SME segment. The MAV is a good step in that direction, and needs to be deepened, driving home the need for specialization among this market's agents. The CNV should also deepen this specialization, which allows having qualified personnel able to develop specific regulations for SMEs and with the capacity to directly assess and supervise or through the market, those that are close to the public offering regime. The CNV has created an SME assistance office which provides assistance on financial, accounting and legal matters for the entry of SMEs into the capital market and in the forms of financing offered by it.

32. An investor base willing and able to analyze and take on SME risk is not yet at hand. Investments in SME equity instruments were mainly concentrated in the institutional investors (insurance companies) that were bound by regulations to making minimum investments in this segment. Although this regulatory requirement increased the demand for SME instruments (mainly through common investment funds (FCIs), they generated certain distortions and volatilities in the interest rates of the instruments demanded,[9] without having generated a genuine and sustainable demand for these.

Factoring and Reverse Factoring

33. The factoring scheme, which would expand SME financing by incorporating SME corporate client risk or reverse factoring (instead of SME risk) and which has not thrived in Argentina, exhibits deficiencies. The formal instrument included in the current legal framework is the "credit invoice," which exhibits the characteristics of being an enforceable

[9] For example, for SME instruments with interest rates below those applicable to frontline companies, when the term to comply with the regulation expired, they subsequently experienced a sharp rise in the interest rate of such instruments, when the regulation was no longer operational.

document (facilitates its collection in the event of default) and should be negotiable. The issues encountered with this credit invoice were: (a) the issuance of it was not fulfilled (by the seller) nor its acceptance (by the buyer) even though it was legally due after 30 days of the bill being sent and if it had not been paid through some of the accepted means (e.g. cash payment, delivery of CPDs); (b) adding to the above, no effective control, incentive and sanctions regime was in place to comply with the issuance and acceptance of the credit invoice; (c) there were some cases of apocryphal (altered) credit invoices, which generated distrust in the regime; (e) the foregoing was facilitated by the inexistence of a speedy and efficient registry and validation system of credit invoices (e.g. digitized and administered by a prestigious institution).

Private Placements

34. Private placement schemes which could be useful as a first step to the public offering of SMEs, need to be further detailed in regulation. Though this market could also develop successfully without SMEs needing to "graduate" to public listings. Private placements could be a mechanism that would allow SMEs not only to receive financing but also to have new investors to help them improve their corporate governance, information systems and internal control, and then be better prepared to go to a public offering. The lack of clarity as to what would be the conditions for an offer not to be considered public (and consequently covered by all the requirements thereof involved) might be discouraging this mechanism.

SME Loan Securitizations and Underwriting

35. Banks find no interest in encouraging their SME clients to enter into public offerings or in securitizing the SME lending portfolios they have on their balance sheets. Financial institutions would have no interest in *underwriting* public offering issues (e.g. MIs) developed by their SME clients, because due to the cost of the assessment and the risk they assume they would prefer to directly provide the financial assistance required by SMEs, but structured as a bank loan. Eventually, banks may be willing to provide "bridge" financing to cover the liquidity needs between the time of the structuring of the issue and its effective placement in the market.

36. Likewise, banks would not have the incentive to securitize their SME loan portfolio, given that they do not expect liquidity needs. They are very liquid and, additionally, the securitization would not imply any significant change in capital requirements. Finally, securitization demands homogeneous underlying assets, which in terms of SME financing is complex (except for vehicle finance leasing, or a loan portfolio of a particular sector with a high degree of homogeneity in lending terms).

IV. PROPOSALS AND OPTIONS

37. Proposals to boost and facilitate SME access to capital market financing must take into account the obstacles they present and how they will be overcome. They should consider costs to access and to remain as public offerings, incentives for issuing and investing in SME instruments, and development of tools widely used in other countries to fund SMEs, among others. Although the following section classifies proposals as incentives for the (i) supply, (ii) development and characteristics of these instruments, and (iii) incentives for investor demand, several proposals involve the three aspects (but are identified by the ones with the greatest impact).

Supply incentives

Regulatory Options

38. Mechanisms need to be established that on the margin incentivize SME issuers to enter into public offerings. In many countries these incentives are fiscal (for example in Germany and Spain listed companies pay 5% less tax). The new SME Law establishes tax rebates for SMEs that are registered, which should be deepened for those SMEs that are listed in public offerings.

39. Another variant, complementary to the above, regards expenses associated with preparing an SME for public offering which could have subsidies or deductions for the company that provides the services to the SME to be listed.[10] This would reduce the incidence of these items in the total cost of structuring a public offering. The lowering of the financial cost for the instruments listed as public offerings, increases the financial margins of SMEs and their subsequent payment of income tax, mitigating the negative fiscal impact of tax cuts. Finally, another variant to incentivize SMEs to enter into a public offering could be instrumented through giving a marginal advantage to companies involved in public sector tendering and the contracting processes for goods and services (similar to the concept of "buy - domestic").

Structured & Pooled Issuances

40. The idea of a marketable instrument (MI) for SMEs, involving a number of SMEs under the same instrument and that is backed by SGRs, would reduce the costs of the public offering and would make SME access to financing at longer terms, viable. A proposal is well underway to issue an MI backed by several SGRs where SMEs would access medium-term financing, without the need for each SME to complete the procedures for the

[10] For example, if a special environmental impact assessment were to be carried out, the company providing said service to an SME could have a tax credit as a percentage of the amount billed to the SME.

public offering, since investor risk and exposure would be with the SGRs. The SGRs would assess (as they do with the other guarantees they issue) SMEs interested in participating in the marketable instrument (MI). From the practical point of view and taking into account the volume of the issue, the participation of more than one SGR will be necessary (given the limitation they have to have exposure to a single instrument); likewise, given the term of the MI it would be necessary to ensure with the shareholders of the SGR that they will keep their investment in the risk fund for the term of the same. A similar operation, although instrumented for shorter terms, with several series issued and structured as a financial trust, were the "Secupyme" issues.

Issuance Process – Procedures, Agencies, Advisors

41. The design of simplified prospectuses for the authorization of public offerings would allow reducing costs and would incentivize SMEs to move forward with public offering instruments. The SME regime currently included in the regulations of the CNV needs to be reviewed and adapted. For this, it is necessary to identify what and which of the concepts currently required have a greater impact on the costs of SMEs, how it can be enhanced and/or simplified, and verify the utility and necessity of information for the authorization and information process geared toward the investor. Based on this assessment, CNV should develop simplified investment requirements for SMEs wishing to consider a public offering.

42. The possibility should be assessed of setting up an intermediate agency or institution to maintain standards for the issuances for SME access to capital markets. This agency would bear liability for the information presented by the company and is the one that would obtain the permits for access to the SME market. This role could be covered by a financial institution, a company or a figure of a new intermediary that represents SMEs for listing in the market. CNV could delegate some limited supervision to such agency to maintain standards in issuances.

43. Additionally, it could be established that the acquisition of securities issued by SMEs under this scheme, could only be acquired by institutional investors. An example of this figure is through the *Nominated Advisor* (NOMAD), which presents and tracks SMEs listed in the AIM (*Alternative Investment Market*) Of the London Stock Exchange. There is no way to enter and quote in the AIM if it is not through a NOMAD. NOMAD is a legal entity authorized by the London Stock Exchange which is in charge of accompanying and monitoring the company in the process of authorization for public offer and maintains responsibility for the information and all aspects related to the listing of the Company during its time in the secondary market.

44. The objective of having an intermediary who would be responsible for the information and compliance with the requirements of the public offering and the quotation of smaller firms, would be in facilitating SMEs approaching the market. This intermediary could facilitate the process of SMEs to approach the market and begin with a process of maturity and

professionalization of its structure. The objective would be to ensure that, in the medium term, the represented companies can dispense with their advisor and can continue their listing autonomously. This task should not be carried out by the same market, as this would lead to conflicts of interest.

45. Likewise, such an intermediary or intermediary institution should be regulated and supervised by the CNV, in addition to tariffs and deadlines to be considered in its evaluation (whether favorable or not). If, as a result of CNV's evaluation of such intermediary, the work and authorizations were found to be inadequate, the agency or institution in question would be penalized and eventually its authorization withdrawn to continue to work as such. Currently, the regulation of CNV contemplates the figure of "pre-qualification" of the SME that intends to go public, which is optional and does not exempt the need for the final authorization of the CNV (the prequalification opinion does is binding).

46. The incorporation of a suitable SME advisor could be considered, subject to regulation and supervision. The objective would be to advise SMEs on their best financing strategy, taking into account all the relevant factors for this: amount needed, term, tax aspects, and costs to enter the public offering, among others.

Development and characteristics of instruments

Factoring

47. It is necessary to make legal and operational changes to boost factoring and its trading in the capital market. As mentioned in the previous section, the credit invoice did not work and its use has been almost nil. The main reasons for its failure focus on the impossibility of verifying that the instrument (to be negotiable) is issued, and in the difficulty of its processing, and its security.

48. The Government is assessing legal and operational changes that promote the use of invoices as an instrument that is speedy, efficient and safe for trading. The most relevant changes are in the compulsory centralized electronic issuance and registry of the MSMEs electronic invoice, with acceptance, rejection and cancellation transactions also registered. What would be established is: (a) the formal requirements necessary for the instrument to be a security, (b) the digital signature of the buyer and seller, (c) an automatic mechanism of acceptance at 30 days, if the invoice was not rejected, (d) the character of an enforceable document once the electronic invoice has been accepted (which facilitates its enforcement in case of default), (e) the prohibition of any limitation to the negotiability of the MSMEs electronic invoice, (f) no need to follow the public offering process in order to be traded, to the extent that these are acquired by qualified financial institutions or investors.

49. The proposal to foster the creation and negotiation of electronic invoices for their negotiation by SMEs in the market adequately addresses the main weaknesses of previous regimes. The use of electronic invoices provides speed and security to the operation, as well as greater control. The automatic acceptance (if the instrument was not rejected or canceled) within 30 days of its issue allows the generation of a negotiable security in simple and automatic fashion. Finally, the character of an enforceable document is crucial in attracting investors.

50. The BICE development bank is developing an electronic platform for trading electronic invoices to be put into operation once the legal and regulatory framework is approved. It would have the goal of operationalizing trading in electronic invoices, promoting bidding between the various investors (financial institutions or qualified investors) to expand the market and get better interest rates for SMEs. The model under study would have some similarities with that applied by NAFIN in Mexico (a description of which is added in the Annex), although BICE in principle would not perform the analysis and registration of the company obligated to pay the invoice nor provide funds to intermediaries to discount the instruments.

Convertible Securities

51. The use of marketable instruments convertible to shares should be encouraged. Many SMEs do not want to expose their share capital because of the low value of the company. The issuance of marketable instrument share warrants at a strike price of the conversion option above the current value of the company would encourage SMEs to increase their capital and encourage investors to be creditors until they have a better feel for the performance of the SME and its valuation. To incentivize this tool, it is necessary to disseminate and explain it to issuers and investors.

Investment Funds & Securitizations

52. The development of securitization funds or sector investment funds would allow reducing the costs of public offerings with instruments adapted to the financial needs of SMEs. Tools such as securitization funds or listed, closed-end investment funds, as considered in the capital markets law, or even with a broader application, would allow adding many SMEs or projects within the same instrument to finance capital or short-term or long term debt.

53. With collective financing instruments diversification of risk for the investor would be achieved as a result of participation in a single instrument that finances several SMEs simultaneously. Furthermore, the responsibility for managing the flows and structuring the instrument is delegated to a third party who is the fiduciary. Although SMEs financed through the instrument may not have the necessary structure or formality to directly access the capital

market through a public offering, the responsibility for managing the flows and setting up a well-diversified risk-covered instrument is with the fiduciary. What makes the use of this instrument fundamentally attractive to SMEs is that, as in the issue of debt on an individual basis, the cash flows can be structured according to the needs of the company, making it possible to structure sectoral securitization funds aggregating debt instruments belonging to SMEs that have the same business cycle, organizing collection and payment flows depending on the possibilities of the sector.

Serial Bonds & Securities

54. There is a need to review the current practice of making a public offering in securities that are arranged in a series, i.e., serialized. One suggestion would be to broaden the concept of issuing and authorizing a public offering to all securities issuances, regardless of whether the securities and documents are issued as a series or not, incorporating all documents, titles or rights that could be feasibly traded in a securities market. The elimination of the prohibition of public offerings of non-serial securities would aim to broaden the scope of instruments for financing SMEs and balance the effort that companies that list need to make, with those that do not list. The requirement that the instruments be serialized became obsolete with technological progress and the digitalization of the instruments.

Private Placements

55. Providing a certain level of transparency and a minimum regulatory framework to private placements would allow using this instrument as a first step for the entry of SMEs to public offerings. The current legal framework does not provide sufficient flexibility for this placement mechanism. The same could be useful for SMEs less prepared to enter a public offering to move forward with the incorporation of investors (new shareholders/creditors) who begin to get involved in SMEs by improving their organization and preparing them for subsequent listing in an SME platform. The MAV has been active in these operations.[11]

56. The regulation addressing private placements needs to be developed further. The draft amendment to the capital markets law establishes the power of the CNV to issue rules establishing under what circumstances an offer of marketable securities will not be considered a public offering, but rather a private one, for which it may take into account means and mechanisms of dissemination, offering and distribution, and the number and type of investors for whom the offer is intended. The U.S. Securities and Exchange Commission (SEC) is an example

[11]One standout case was the private placement of SME Castor Oil, organized by the MAV in September 2016. It was successful, and it is estimated that the company will be able to join a MAV SME platform in the future.

of a regulatory framework that specifically addresses private placements, establishing guidelines and registering them.[12]

Credit Enhancement

57. The possibility of extending third-party guarantees on market instruments should be explored. As a complement to the coverages of SGRs that have been working well, and for the purpose of expanding the market, banks, cooperatives, settlement and clearing house agents (ALyC), among others, should be allowed to provide guarantees of market instruments. Eventually, provinces and municipalities could be added, which would back SMEs operating in their region, with co-participation guarantees from their tax collections.

Incentives for the demand side (investors)

Tax Incentives

58. Tax exemptions could be analyzed for investors acquiring shares from SMEs that expose their capital to public offerings. The scheme could be similar to the one established in the Entrepreneurship Law for capital contributions made by venture capital investors. The grounds are based mainly on generating incentives for public offerings for SMEs, which, from there, become more formalized and better managed.

Legal Enforceability of Instruments & Contracts

59. The extension of the character of an enforceable document to all SME debt instruments in the capital markets would increase investor protection, increase the demand for capital market instruments and would reduce the yield required. In order to encourage investment in the capital market, it would be necessary to equalize the conditions that the banking system has in general, for enforcement in the event of debtor default. In the event of default of a security issued in the capital market, speed is crucial in the enforcement of collections and guarantees to grant greater protection to investors. This speed is achieved by considering the instruments enforceable documents (CPDs, securitization funds, bills of exchange and bank debts are some of the assets that already have this characteristic). In the case of extending, for example, the character of an enforceable document to MIs and promissory notes, a greater number of investors would be willing to invest, or would do so in a larger amount and/or a lower interest rate.

[12] https://www.sec.gov/info/smallbus/qasbsec.htm#npo; https://www.sec.gov/fast-answers/answers-rule506htm.html

Market Makers

60. As an incentive for the participation of individual investors in the SME instruments market, it would be necessary to promote liquidity of securities with agents such as market makers. The capital markets law considers the foregoing tool a means to guarantee the existence of buy and sell quotations for securities with lower natural liquidity conditions in the market. Under this scheme, stockbrokers are authorized to act as market makers of a particular company, so they have the obligation to submit purchase or sale offers at the request of an investor, in case no offers are available from other investors. In this scheme, the CNV needs to determine the conditions under which they must operate and the minimum liquidity requirements of market makers. One of the aspects to be considered for the regulation of market makers is to guarantee transparency and avoid possible manipulation of market prices.

Research & Information Disclosure

61. In order to facilitate the analysis of listed SMEs and thereby favor trading in the secondary market of these instruments, mechanisms could be established to encourage the preparation and publication of reports with regard to the aforesaid. It is common to hear that low capitalization companies are a greater risk as a result of low liquidity in the market, due to their low volume of operations in the secondary market (float) and the limited number of shares. This is typical of the SME securities. The low liquidity of these securities discourages brokers and analysts from developing tracking and reporting on these issues. Some of these research functions may need to evolve gradually as they need to be financed based on commissions from market transactions thus requiring ex ante a critical mass of market volume.

62. At the same time, the lack of research reports about these companies keeps investors from knowing the depth of these instruments and considering them an option in their investment portfolios. Therefore, some markets and exchanges[13] have decided to directly fund research reports on SMEs on their own account that are broadcast to the market during the first years of listing. In this way, the dissemination of information and professional analysis on SME stocks and bonds allows investors to know the characteristics of the securities issued and attract attention to the possibility of incorporating them into their portfolio. Along these lines, other communication actions are carried out with the goal of expanding the effects of the public offering for the possibility of the company in the market, such as the generation and organization of newspaper reports in various specialized and general media with representatives of SMEs listed.

[13] Some examples are NYSE, EURNEXT and BM&F, Bovespa that financially sponsor a number of analysts so they periodically cover research reports on SMEs.

VI. KEY PLAYERS

63. This section lists the main players to facilitate SME access to the capital market. It likewise summarizes for each institution what role or actions they need to undertake or deepen to enable greater and better access of the SMEs to financing through the capital market.

- **CNV:** understand the characteristics and capacity of SMEs for public offerings; having supervisors specialized in SME markets and instruments, review the SME regime to evaluate its effectiveness (taking care not to enter into a "promoting vs. monitoring" conflict of interest); facilitating the assumption of SME risk by qualified investors, re-assessing the current definition of what is meant by this level of risk

- **Secretariat for Entrepreneurs and SMEs (Ministry of Production):** relationship with SGRs, programs to facilitate the formalization of SMEs (tax incentives, training), regulation and implementation of the Entrepreneurs Law.

- **SGRs:** Facilitate the structuring of capital instruments by incorporating their guarantees so as to enhance the financing of SMEs.

- **Markets and agents specializing in SMEs:** implement and deepen their expertise to achieve economies of scale, understand the financing needs and limitations of SMEs.

- **Public banks:** completing markets (positioning themselves in market segments not serviced of by other banking entities). Facilitate the structuring of capital instruments for SMEs and/or acquire SME capital instruments.

- **Other banking entities:** accompany SME clients in their opening to public offerings, provide bridge loans until placement of the instruments.

- **Stock Exchange:** as the main Argentine fiduciary, facilitate the structuring of SME trust funds and common SME investment funds.

- **Banco de Valores:** as principal Argentine fiduciary, facilitates structuring of SME trusts and mutual funds for SME investment.

- **Caja de Valores:** as custodian, registrar and paying agent.

VII. CONCLUSIONS AND NEXT STEPS

64. Although there has been an observed increase in the amount and participation of SME access to financing in the capital market, it is concentrated in short-term financing and remains very small. CPD operations have shown significant growth in recent years, but other longer-term instruments (such as MIs, FFs and/or share issues) have performed more discreetly.

65. The reasons for the lack of development and access to the capital market by SMEs are several, including macroeconomic issues and other specific aspects of SMEs. Overall, the capital market is underdeveloped, not just for SME financing. The high levels of inflation threaten the possibility of issuing medium and long-term instruments, which is where the capital market would offer greater relative advantages. There are other specific SME funding issues linked to the high informality and tax pressure of the sector; high fixed costs to structure issues; the need for specialization in the operation of financing SMEs; SME lack of awareness of the existence of financing instruments through the capital market; and, a lack of a genuine investor base demanding public offering instruments with SME risk, among others.

66. The legal changes approved and under analysis are useful in facilitating the development of SME financing through the capital market. The new SME and Entrepreneurship Law, as well as the initiative to incorporate an electronic MSME invoice will help formalize SMEs, reduce tax pressure, extend and improve some instruments to be financed through the capital market (MIs for limited partnerships, factoring) and generate some incentives for investor entry (especially in new ventures).

67. The different proposals need to take into account the obstacles they present to SME access and to the capital market. These should include aspects that encourage supply (SMEs going to the capital market) and demand (investors interested and willing to acquire SME instruments), as well as in the design of the instruments including their legal framework, operation, collection, costs and, finally, attractiveness to both issuer and investor.

68. Public and private sector players have a crucial role in the design and implementation of the different proposals. These involve the exchanges; markets (especially those specializing in SMEs), agents, regulator/supervisor, SGRs, Secretariat of Entrepreneurs and SMEs, banks (public and private), registrar/ custody/payment agents, fiduciaries, structurers, among others. All of them must act in a coordinated and complementary manner (without prejudice to the sound and necessary competition that must be generated in the market) in favor of a more open and accessible capital market for SMEs without neglecting investor protection.

Next Steps and Priorities

69. The financial authorities should consider the feasibility of implementing recommendations with higher chances of short term success, and implementing other supporting elements in a phased manner. Some actions such as ensuring the existence of market makers, information providers and standard setting institutions will take more time to develop until there is a critical mass of issuances. The MAV exchange of Rosario has begun to undertake some of these functions but more development and dissemination is needed to build up a strong investor base and make such a market profitable for arrangers.

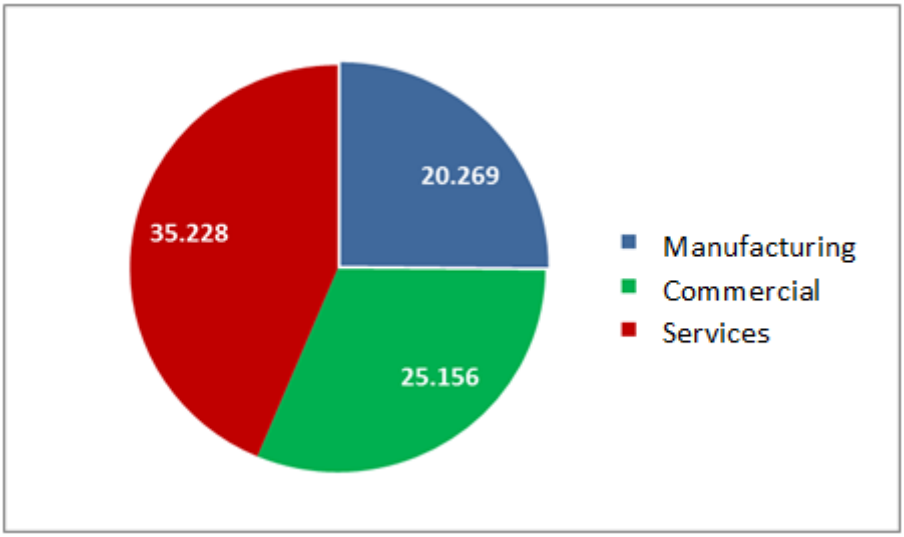
70. Individual securities issuances of SMEs will take time to develop and in the meantime other instruments and collective approaches should be considered. In order to prioritize, to start with, the authorities should prepare enabling regulations to promote: (a) legally recognizable invoice based factoring, (b) incentives for reverse factoring, (c) the use of pooled security issuances (asset/receivable based or obligation/loan based) for SMEs, and (d) a private placement regime and document processing requirements for SMEs. This should be supported by cost incentives for arrangers and seed investors to prepare and install the necessary financial infrastructure, and targeted tax incentives such as exempting transaction tax charges on initial SME issuances and transfers until a critical mass of market issuances is achieved.

71. The SME market in Argentina has already progressed substantially and is supported by the credit enhancement functions of guarantee firms (SGRs) among others. Most such credit enhancement has covered either bank lending to SMEs or CPD post dated checks. Given the knowledge of SME risks by guarantors, the step toward providing risk coverage for new asset classes issued in the market, seems feasible. For such transactions and new instruments to materialize, however, the needed enabling regulation and incentives to sponsoring institutions should now be prioritized.

VIII. ANNEXES

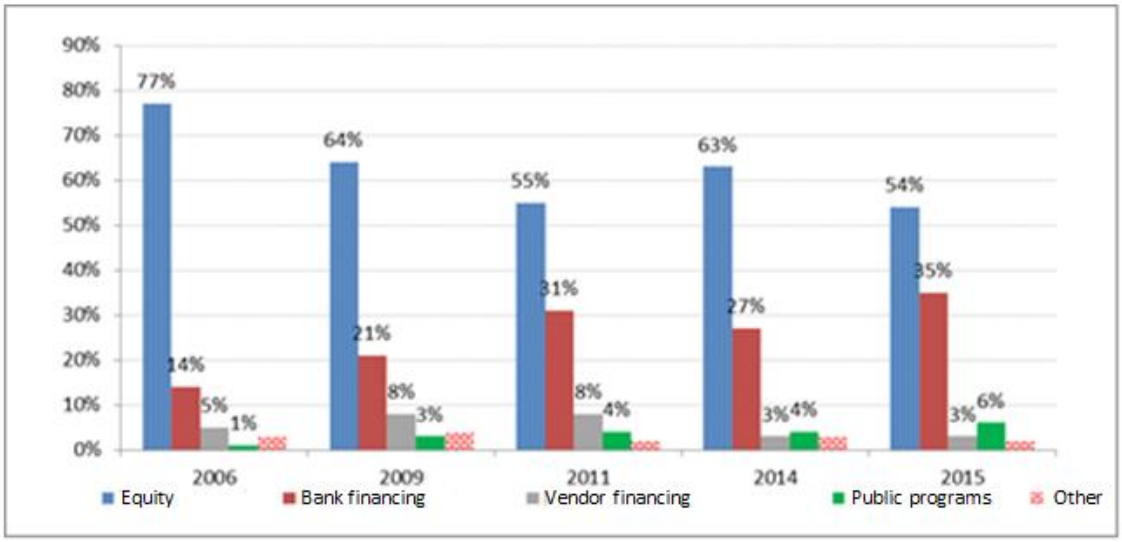
A. Charts and Tables on SMEs

SME firm distribution by sector



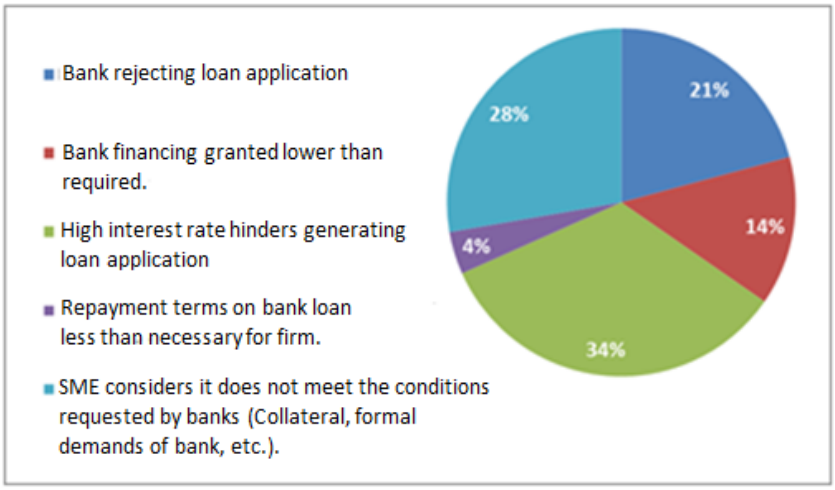
Source: Fundación Observatorio PyME Report 2015-2016

Funding sources of manufacturer SMEs



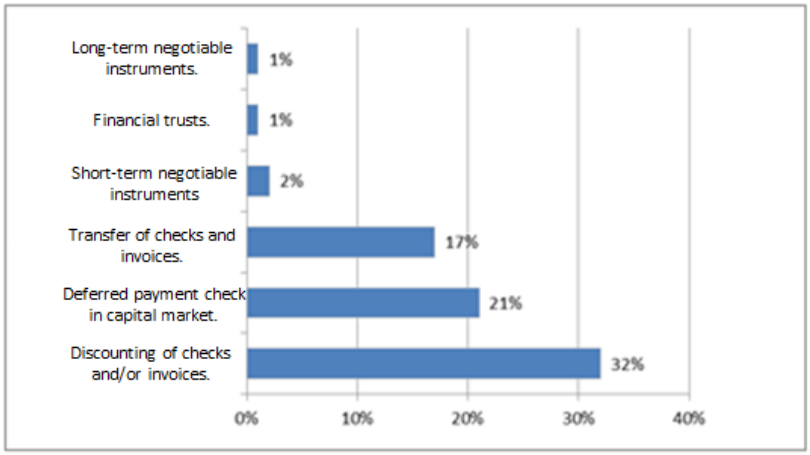
Source: Fundación Observatorio PyME Informe Especial
Informe Especial: Inversión y acceso al financiamiento en el segmento PyME manufacturero.
Aspectos estructurales (julio 2016)

Main reason why manufacturing SMEs are unable to invest given lack of bank financing



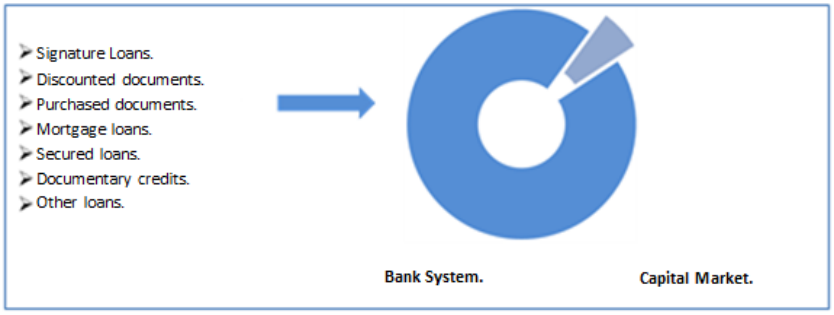
Source: Fundación Observatorio PyME Informe Especial
Informe Especial: Inversión y acceso al financiamiento en el segmento PyME manufacturero. Aspectos estructurales (julio 2016)

Financing investment sources for industrial SMEs (alternatives)



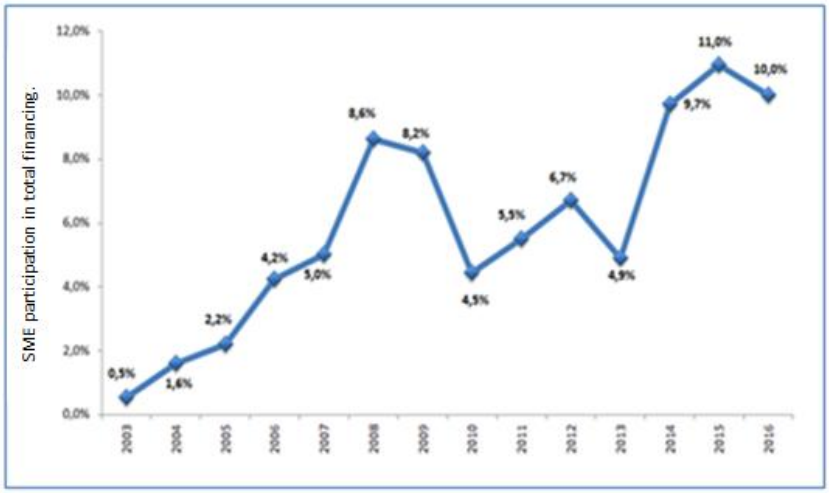
Source: Fundación Observatorio PyME Informe Especial julio 2016

Financing to SMEs: banking system and capital market



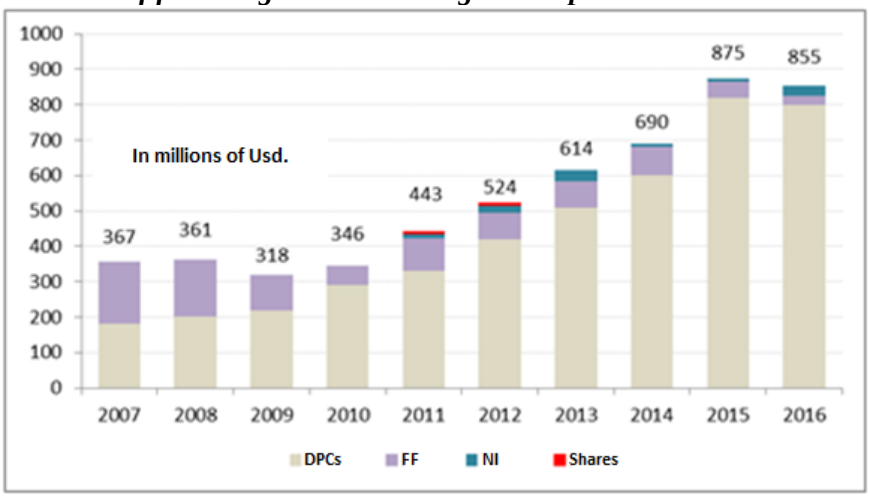
Not including advances on current accounts and other advances, personal loans and credit cards
Source: CNV

Participation of SMEs in the Capital Market



Source: CNV

Evolution of financing to SMEs through the capital market



Source: Instituto Argentino del Mercado de Capitales (IAMC)

Characteristics of CPDs traded on the MAV (March 2017)

	Amount traded (thou $).	Quantity of DPC.	Weighted average maturity (days).	Average amount (thousands $)
Backed.	1823	11784	190	155
Sponsored.	31	144	106	215
Direct secured.	20	157	97	127

Source: Informe MAV Negociación de CPD y Pagaré Marzo 2017

B. Experiences on financing initiatives to SMEs in other countries

The section herein includes, by way of example, certain initiatives from Latin American countries that have been developed for the purpose of driving SME access to financing through the capital market. The countries included are: Bolivia, Chile, Costa Rica, Ecuador, El Salvador, México and Peru.

Bolivia

The Bolsa Boliviana de Valores (BBV) has a SME Trading Board, a centralized mechanism managed by the BBV, whose fundamental purpose is the development of an organized securities market. This mechanism has been consolidated for the financing of companies classified as small or medium.

Technically a SME can issue any type of security within the Bolivian stock market, whether these are bonds, promissory notes or shares. However, through the SME Trading Board, the current regulations only allow trading of promissory notes.

Issuers trading promissory notes at the Trading Desk must:

- Comply with the definition of Small and/or Medium-sized Enterprises (SMEs) according to the "SME Stratification Methodology for the Securities Market".
- Have authorized a margin of indebtedness that can be up to four times the EBITDA of the company (Operating Result plus Depreciation and Amortization).
- Comply with a financial obligation to maintain at least 1.2 times the coefficient of its EBITDA divided by its Financial Expenses.

Chile

In Chile, the Stock Exchange operates an alternative financing mechanism in the market covered by a special law, the "Agricultural Product Stocks Act," which basically allows products, contracts and invoices to be placed on the market in order for investors to buy and therefore generate financing to those companies that issue invoices.

The Bolsa de Productos has partnered with institutions such as the Ministry of Agriculture, Economy, ChileCompra, SNA, Fedeleche, Fedefruta, Corma, state and trade associations, in an effort to improve financing conditions.

There is a Bolsa de Productos MiPYMEs [Micro-SME Product Exchange], a dissemination platform that offers SMEs easy access to the capital market. Its initial objective was to promote the financial education of Chileans and to publicize the Bolsa de Productos. This is where explanations are given on the workings and manner of access to factoring (the mechanism consisting in the transformation of a company's assets into cash thanks to a contract that allows to transferring invoices and other credits to a provider entity). The invoices quoted on the Exchange are also

guaranteed by insurers who charge a commission for the guarantee. This raises the credit rating of the quoted invoice and thereby increases the range of potential investors.

Costa Rica

MAPA is the alternative stock market, an imitative of the National Stock Exchange (BNV) of Costa Rica, to promote capital investment, development and the professionalization of small and medium-sized companies with high potential for growth.

It targets institutional or sophisticated investors and is endowed with sponsors or independent experts whose main function is to provide continuous advice to companies on issues related to MAPA, and in other areas where they are competent. Any company that wishes to access MAPA must have the formal support (through a contract) of a sponsor already admitted by the Exchange.

A standout example funded through this platform is the Ad Astra Rocket Company, which raised funds to build a plasma engine to make space travel more efficient. Since joining MAPA in May 2008, this company has captured a significant amount of resources to finance a key phase of its development plan. In September 2010, it exited from MAPA and obtained authorization from the General Securities Superintendence to register its shares in the Costa Rican securities market and make a restricted public offering.

Ecuador

In Ecuador there is a segment of the market dedicated to SMEs, the Special Registry of Non-Listed Securities (Revni), which is an "acclimatization" market in which it is possible to register securities of companies that want to test the market and also certain securities that are not registered in the Stock Market, at the request of the holder. These can be fixed or variable income.

The stock exchange acclimatization market allows a company to test stock market financing for a certain period of time. The term is for trading on the stock exchange rather than the term of the security. The most commonly used alternative is corporate promissory notes. The use of promissory notes improves the position over time by extending the life of the document. Further, bills of exchange, documents representing debt, and shares, among other instruments can also be traded.

According to the REVMI report of July 2016, 59% of the participating issuers are SMEs.

El Salvador

A draft bill in El Salvador for a special scheme for access to the stock market for small businesses establishes that micro and small enterprises (MiPyMEs) may issue shares and credit securities under a simplified public offering regime to finance capital assets, working capital, investment projects, modernization of processes, exports or the restructuring of liabilities. In no event may the financing be used for consumption, distribution of profits, financial intermediation or any destination aside from those mentioned.

The exchange checks are presented, as an individual security consisting in a payment order made against a financial institution authorized by the Superintendence of the Financial System (SSF) to raise funds from the public, due only on the date stated in the document, which is later than that of its making. Exchange checks may only be traded through a Dealer-Brokers on a stock exchange, for which the holder must endorse it in administration in favor of a company specializing in the deposit and custody of securities, as set forth in the Law of Electronic Annotations of Securities on Account.

Exchange checks may only be issued by a MiPyME or in favor of one and may be backed by the State's financial institutions, financial institutions, SGRs, independent funds or equity pools managed by the aforesaid institutions, or by any other company authorized by the SSF for such effects. The draft bill also considers the introduction of an invoice discounting system or tax credit vouchers for MiPyMEs.

The discounting system consists of a tool by means of which MiPyMEs acting as sellers can discount invoices or tax credit vouchers they issue from the sale of goods or the provision of services to companies, the State or in general to institutions, whether public or private, so that through this system investors can buyers of said invoices or tax credit vouchers. The managing securities exchange will dictate the regulations that govern the operation of the discount system.

Only invoices or unpaid tax credit vouchers that have been confirmed by the entity to which the MiPyME sold the goods or provided the service described in the text of the document may be discounted through this system. Invoices or tax credit vouchers that have been confirmed in accordance with the governing provisions shall be an enforceable document to demand payment of the face value of the instruments against the entity that confirmed them. The seller MiPyME will be jointly and severally liable for the payment of the confirmed invoices or tax credit vouchers. Invoices or proofs of tax credit vouchers that have been confirmed can be redeemed before expiry.

After confirmation of the invoice or tax credit voucher it is deposited with a company specializing in the deposit and custody of securities that managed its confirmation and may be transferred in the discounts system by means of an accounting transfer through book entries recording in the records of the Custodian, which shall, without further requirements, be complete, tradeable and subject to autonomy rules. After the invoices or tax credit vouchers have been confirmed, payments will be made through the Custodian.

Finally, it provides a tax incentive, since the issuers of deferred payment checks will be exempt from the payment of all kinds of taxes for the issuance of such checks or financial transfers. They will also be exempt from payment of income tax, check tax and electronic transfers, liquidity control tax and all types of taxes, amounts paid or credited to natural or legal persons, unions of persons, de facto partnerships, estates and trusts, which have received such sums in respect of yields, capital gains, interest or dividend from shares, credit securities, and in general all such financial instruments considered in Law.

Mexico

Nacional Financiera SA (NAFIN), a Mexican development bank, implemented in 2001 a reverse factoring system known as 'Cadenas Productivas' [Productive Chains]. To this end a group of large and reputable credit companies were invited to participate in a financial invoice market. In this market the accounts payable to SME customers are discounted by a group of private financial intermediaries. It is called reverse factoring because the purchasing companies are the ones that submit the accounts payable of their vendors to the various financial entities instead of the vendors (SMEs) being the ones looking for factors in order to discount their accounts receivable.

NAFIN financed and implemented a technology platform for electronic factoring, so today an operation of this type can be closed in less than three hours. The purchasing company uploads the negotiable documents corresponding to the accounts payable that look to be financed. These documents are in view of all the financial institutions registered in the market, so that the interested parties submit different bids on the amount of the discount. Once the bids have been established, the supplier company decides with which broker to carry out the transaction, so that the winner deposits into the supplier's bank account (usually the SME) the discounted value of the negotiable document. It should be noted that in these operations the factor takes on the entire risk in case of default by the purchasing company.

Under this reverse scheme, the purchasing companies free the factor of the task of monitoring the moral quality of the vendors and, consequently, minimizes the possibility of fraud with apocryphal invoices. On the other hand, the beginning of the process of buying and selling invoices from a group of solid companies previously chosen by NAFIN reduces the uncertainty concerning the credit quality of the issuer of the invoice. In addition, financial intermediaries benefit from receiving information concerning the operations of the purchasing companies and their suppliers.

Undoubtedly, buyer companies benefit from this mechanism for a variety of reasons: they release financial resources previously channeled into the commercial credit of their vendors, they can achieve longer terms in the payment of their accounts, and reduce the cost of handling their liabilities. But more importantly, SME vendors to large corporations are able to obtain financial resources from the banking system (tax deductible) at much more affordable rates given the competitive manner in which rates are determined. Finally, the financial intermediaries expand their range of businesses when entering an area of activity that previously was neglected because of the high transaction costs.

In implementing this reverse factoring, NAFIN acts as a second-tier bank by requiring intermediaries to fund themselves from public resources. NAFIN does not charge fees for registering in this market nor for the transactions carried out, so that the financial solvency of its operation is obtained from the interest rate charged on the financing. The development bank establishes a maximum rate that factors can charge when making a discount, which is above the

cost of financing, thus guaranteeing the profitability of the intermediaries. However, this maximum rate has never been reached due to the auction scheme implemented.

It should also be mentioned that a significant percentage of the purchasing entities are public sector agencies, and that as of 2007 there is an obligation for federal agencies to join the "Productive Chains" program and register accounts payable for procurement of goods and services, leasing and public works. When resources are channeled into infrastructure and related public services, financing for the program comes from the Banco Nacional de Servicios y Obras Públicas [National Bank for Services and Public Works]. According to the tax authorities, this factoring mechanism allows for greater certainty, transparency and efficiency in the payments of government entities.

Peru

Peru has an Alternative Securities Market (MAV), a segment of the stock exchange targeted at small and medium-sized Peruvian companies, which facilitates access to financing in the stock market at lower costs and with lower requirements and information obligations. The benefits include: 50% reduction in the fees charged by the stock exchange, SMV (regulator and supervisor of the capital market) and CAVALI (electronic registration agent); lower requirements for the issuance and listing of securities; lower requirements and information obligations; savings in structuring costs and legal advice, as companies will use standard formats available on the SMV website.

One can negotiate share interests, bonds and short-term instruments. Today, short-term instruments are being negotiated.

The following is a comparative table on the requirements that a company must meet for its listing in the main versus the alternative market.

Listing Requirements Main vs. Alternative Market

Listing	Main market	Alternative market
Annual report (last fiscal year)	last 2 fiscal years	Yes
Information annex on compliance with Good Governance principles.	Yes	From year 03
Risk classification report	2	1
Individual annual audited financial information	last 2 fiscal years	Yes
Submission of individual financial statements	Quarterly	Biannual
Preparation of financial statements in accordance with international financial reporting standards.	Yes	Yes (*)
Special sanctions regime.	No	Yes

Source: web page of the Alternative Securities Market

C. Institutions and persons surveyed

Institution surveyed	Persons surveyed
Banco de Valores	Juan Nápoli
Banco Galicia	Martín Truppel, Ariel Llambías, Marcelo Poncini
Banco BICE	Pablo García, Carlos Pirovano
Banco Santander Río	Marcos Devoto, Julio Sager, Mauricio Rodríguez, Ariel Jaluf, Pilar Rolando, Pablo Stasinsky and Lorena Castagniaro.
Bolsa de Comercio de Buenos Aires (BCBA)	Claudio Zuchovicki
Comisión Nacional de Valores (CNV)	Martín Gavito, Julio Bullrich
Garantizar SGR	Carlos Pirovano
Mercado Argentino de Valores (MAV)	Fernando Luciani
Subsecretaría de Emprendedores y PyME (Ministry of Production)	Mariano Mayer, Agustina Briner