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It's Time for Argentina's Capital Market

By Nicolás Fernández Madero & Fernando Garabato

The Argentine capital market is ready to get off the hook. After many years of being in default, on February 18, 2016 Argentina´s Finance Minister finally reached an agreement to resolve the firm verdict – upheld by the US Supreme Court – that imposed the country to pay Italian, German, Argentinean and other unidentified bondholders, the amount of US$1.8 billion. The agreement with creditors will allow Argentina to reinsert itself at last in the international markets, increase the inflow of investments and reactivate growth.

Catch-up with the world

At the same time, our country is completing a three-year legislative reform process of its federal blue sky laws, adapting them to international standards, pursuing modernization and transparency.

In that regard, the country have not had a major change in public offer legislation since enactment of the first capital markets law back to 1968 (the "public offer law" N°17.811). The new Capital Markets Law N°26,831, in force since November, 2012 expanded the powers of the securities commission, the *Comisión Nacional de Valores* ("CNV"), over markets, agents and issuers, increased the number of brokers, and encouraged the creation of a federally integrated market, through mechanisms for interconnecting computer systems in the several stages of negotiation. In 2013 the federal government issued Decree N° 1023 while the CNV went into the details of regulation through Resolution N°622/13, which is the ultimate guide of any aspect involved in capital market transactions to be carried out in Argentina. The International Financial Reporting Standards (IFRS) were implemented and corporate governance rules were tightened, collaborating to protect the public from fraud.

Also very recently, Argentina gave a relevant twist in its anti-money laundering regulation, complying with the Financial Action Task Force's (FATF) international guidances and requirements, which impacted positively in capital markets´ regulations.

The new federal administration led by President Macri, in office since December 2015, is also actively promoting several new tools to facilitate medium and small companies, as well as start-ups and entrepreneurs, to enter to the capital markets. In that regard, a legislative package containing innovative fundraising vehicles based on crowdfunding and crowdlending supported by existing capital markets´ platforms, is about to be released.

Negotiable obligations push forward

During 2015, Argentine companies obtained primary financing in the capital markets for US$7,841,000,000, 13% more than in 2014 (considering bond issuings, equity placements, asset-backed securities and the sale of deferred checks). The star instruments however, have been the bond issuings –or "negotiable obligations" as called by Law N°23,576-. Only these papers represented the amount of US$4,239,000,000, 34% more than in 2014.

We believe that the confluence of a better and more modern regulation, with the return of Argentina to the international markets, will result in the booming of credit volumes and therefore, of primary placements of negotiable obli-

gations in our country and abroad.

Main drivers to go public

Which are the main reasons for a company deciding to enter the public offer regime and issue negotiable obligations?

The decision of our clients would generally involve the following matters. First of all, from a reputational perspective, any company from any sector of the economy will gain a presumption of transparency and "best business practicer", since it is known that issuers are subject to corporate governance rules, and their major corporate actions have to be informed to the authorities and to the market. This award will make a commercial difference, especially in competitive sectors of the economy. Also, from a financial standpoint, the company will have exclusive access to a mass of funds that otherwise would not be at hand like those from investment funds, insurance companies and other big securities market players. And in addition, its negotiable obligations will be granted with a beneficial tax treatment: if some requirements are met – related to the use of proceeds – interest will be exempted from income tax, and all transactions and services related to the deal will also be excluded from value added tax. Not less important, the normally high banks' spread will be replaced by lower public offer costs and interest rates.

A transaction outline

The term demanded to prepare and launch a first-time (IPO) local bond offering is three to four months, from the beginning of the works until settlement. However, placements of series under a programme will demand a shorter time. The documents to be produced are pretty standard and not complex. The main, and most time-consuming transaction document, is the prospectus – in a stand-alone issuing – or the programme prospectus and the pricing supplement, in a programme-based issuing (which by the way is the most elected option).

International placements will require the same approvals from the CNV (and at least one local market listing is recommended). Local works and approvals will neither take longer nor materially differ from the ones required for local placements.

After a long wait, now it's time for Argentina's capital market.

__Nicolás Fernández Madero__ is a counsel at Mitrani Caballero Ojam & Ruiz Moreno. Fluent in Spanish and English, Nicolás is responsable for structuring and coordinating negotiable obligations issuings, including YPF's billionaire local and international bond issuings, bond exchanges, re-issuings and retail placements since 2012, including the US$1 billion bond nominated by Latin Lawyer as deal of the year 2014. YPF oil is the biggest company in Agentina. Recently structured asset-backed securities issuings for the energy and railway sector for AR$2 billion. He is listed among 12 Argentine leading Banking Lawyers 2016 by www.whoswholegal.com – Law Business Research Ltd, UK.

__Fernando Garabato__ is partner and leader of the Argentinean Corporate Finance Practice at BDO, being fluent in Spanish and English. Responsible for Merger & Acquisition, Valuation and Advisory Services to large and middle market private & public clients.

He has more than twenty years´experience in financial entities (first line banks and currently BDO) completing valuations of financial assets and new businesses, credit risk analysis, M&A and corporate finance transactions for clients in different industries. He has an extensive experience in capital market transactions, including negotiable obligations and asset-backed securities placements.

Fernando currently team-works with Nicolás Fernández Madero in capital market transactions.