



# Euroclearability and **Latin America**

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## Preface



One of the great strengths of Euroclear is the breadth and diversity of our client ecosystem. Latin American clients have been an important part of that ecosystem for a very long time.

Through Euroclear, our Latin American clients get as close as possible to their international counterparties, thereby reducing the time taken to settle their transactions and increasing their settlement efficiency.

By pooling their assets in one place, clients are also able to improve their usage of collateral and optimise their liquidity management. The scale of our international network creates added opportunities for repo, securities lending and derivatives activities.

As we observe an increasing appetite among our Latin American clients to invest internationally, we have been working to expand the range of options open to them, from collateral management servicing to international funds. This publication details the benefits Latin American clients can reap by working with Euroclear as well as the multiple service solutions we have built for them.

While our relationship with our existing international clients continues to deepen, we are also keen to offer them access to more local capital markets by expanding our reach in Latin America. To that end, we are in constant discussions with local authorities aimed at bringing the benefits of Euroclearability to more markets and more investors.

Euroclear is the place where international and local issuers and investors meet. Join us.

**Miguel Ferreira**  
Regional Head Americas, Euroclear

Expanding investment in infrastructure and broadening access to capital will be two of the key drivers of future growth across Latin America. The good news is that, given the right conditions, there is a wealth of international investment capital lined up ready to find its way into Latin America's markets. As this publication demonstrates, Euroclear is well equipped to play its part in facilitating those flows.

It is widely recognised that Euroclearability is a major draw in attracting foreign investment. Not only does it guarantee investors the internationally-recognised standards of security and efficiency, but it is seen as a benchmark of a market's maturity.

At a time when interest rates in much of the developed world are close to, or actually, negative, the developing world has a card to play in providing investors with much sought-after yield.

In particular, we have worked with Latin America's markets to create a unique and powerful infrastructure: combining primary and secondary market activities and bringing local and international investors into one single liquidity pool and ecosystem. This innovative infrastructure has successfully boosted the domestic market liquidity and is rapidly gaining momentum.

It is also relevant that at a time when increasing amounts of capital are managed according to environmental, social and governance (ESG) criteria, most of the key managers of ESG capital are members of Euroclear. Where sustainable capital meets sustainable projects, Euroclear is often the conduit through which that investment passes. We are in dialogue with leaders in Latin America to bring their local infrastructures to the next level and be part of our ESG ecosystem.

To that end, we are keen to leverage our global distribution capabilities to facilitate access to international capital for issuers beyond governments, government agencies and top corporates. This is a key part of supporting the capital market developments in the region.

We look forward to working with you to drive growth and real changes in Latin America.

**Stephan Pouyat**  
Global Head of Capital Markets and Funds, Euroclear





*“Developing local capital markets in our dollarized economy is key in order to foster local and international market participation. The Republic of Panama uses the i-Link platform with Euroclear as a way to further develop the local curve, allowing us to increase liquidity and reduce market volatility, while broadening investor base and providing additional funding sources. Our strategy is aimed towards improving local markets, having a competitive financial center and fostering investment.”*

**Hector Alexander**  
Minister of Economy and Finance, Panama

## Euroclear in Latin America

Liquidity, resilience, diversification – these are key qualities prized by investors and local markets alike. Euroclear Bank matches the needs of its clients and the local markets while minimising the associated risks for all participants in the eco-system.

We have collaborated with a number of Latin American countries to help them achieve their capital market objectives. Through careful reform, and by linking with our proven business infrastructure, these countries have been able to successfully enhance their ability to attract international investment to support their domestic economy.

The process for a market to become Euroclearable is often a long one, potentially requiring tax and legislative changes. But the results have been shown to be positive.

By making their securities Euroclearable, markets create the conditions in which investors can access and invest in them in a simplified, more efficient and secure manner. That increases investors' appetite and confidence which often deepens liquidity, lowers borrowing costs and expands the financing options open to local issuers.

With our market access, global investor base and multi-currency capabilities, we are also well positioned to partner with Latin America's markets as they explore new ways of developing more regional, cross-border initiatives such as Mercado Integrado Latinoamericano (MILA).

### Current Euroclearable markets in Latin America

- **Argentina:** government debt securities, corporate debt securities, equities
- **Chile:** government debt securities
- **Mexico:** government debt securities, corporate debt securities<sup>1</sup>, equities
- **Panama:** government debt securities, quasi-government debt securities
- **Peru:** government debt securities

<sup>1</sup>Exempt from capital gains tax only

# The win-win of Euroclearability

Euroclearability signifies that a market offers levels of accessibility, asset protection and settlement finality in line with globally recognised standards. It is akin to a welcome sign for international investors.

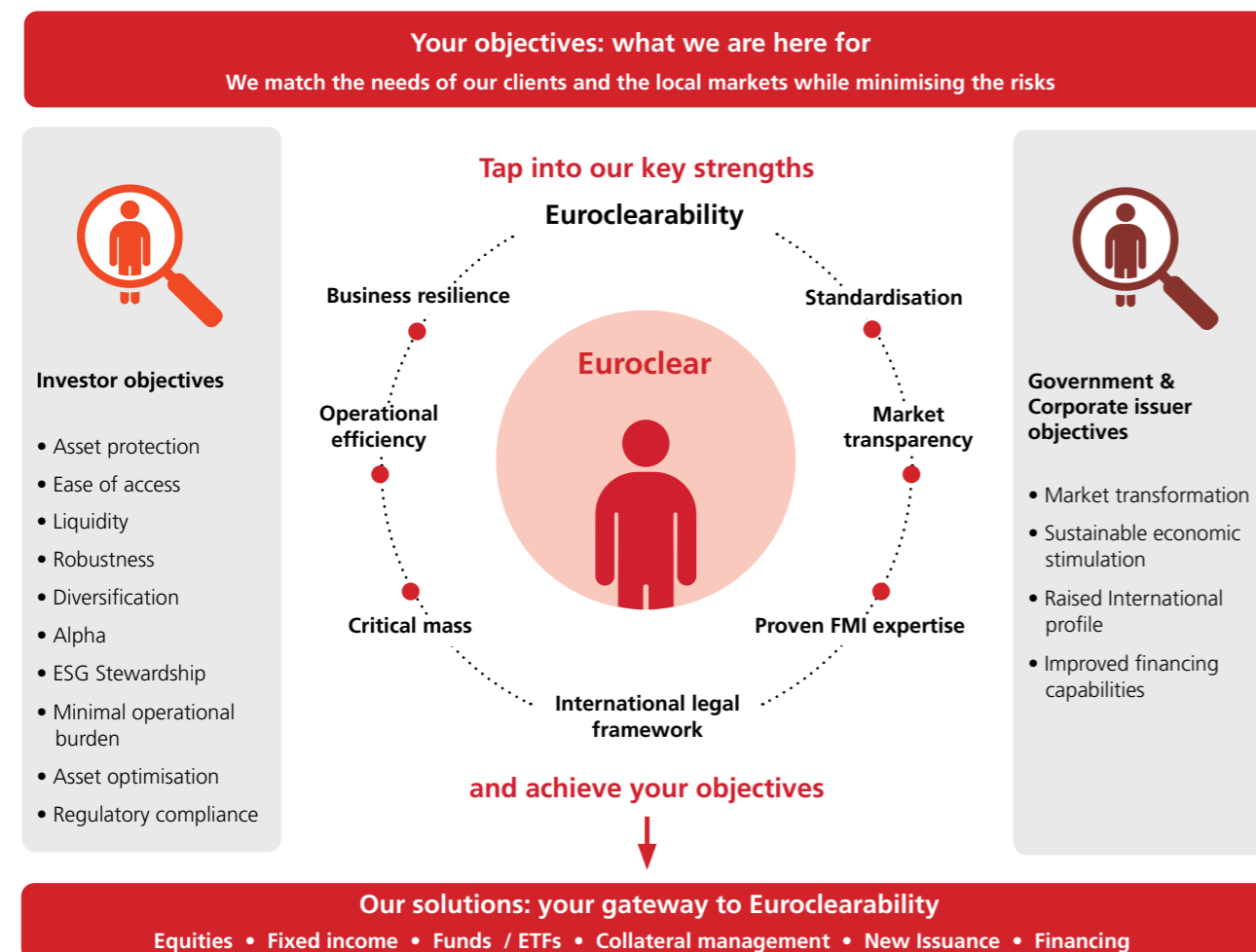
By addressing operational concerns investors have, it allows our clients to make their decisions to access and invest in a market based on market fundamentals alone.

It does more. Euroclearability represents a set of qualities shared across all our products – which work together for the benefit of both our clients and the local markets we serve.

Our clients have a single account and a single pool of assets. That allows them to put their assets to work in a unified manner. In particular, Euroclearable assets have the capacity to be used as collateral to finance securities in transactions such as repurchase agreements and uncleared derivatives margining, while we take care of the operational aspects and risk factors.

In sum, Euroclearability makes it easier for our clients to buy, hold, mobilise and finance their securities while giving local markets much enhanced and sustainable access to international investors and liquidity.

## Uniquely positioned to support the capital market eco-system



# Liquidity, diversification, resilience

In turbulent times, investors need to know they can still operate with certainty and security within a risk averse eco-system. Equally, local markets want to sustain long-term investor interest with minimum volatility. A study by PwC found evidence of reduced yield volatility 'which may suggest that Euroclearability reduces the vulnerability of emerging markets to capital outflows'<sup>2</sup>.

Our presence in a market supports the aims of both our clients and the local market. We help build liquidity. We extend opportunities for diversification. And we underpin all that with real resilience.

With a client base made up predominantly of long-term investors, we help bring stability to markets.

## Liquidity

Liquidity is key in bond markets in particular. Investors are often reluctant to engage with illiquid markets.

By facilitating investment, Euroclearability diversifies the investor base, deepens the pool of liquidity and increases trading volumes. With that come lower bond yields and reduced borrowing costs.

A link with Euroclear also makes it easier to use local bonds as part of a collateral management programme. That, in turn, supports investor interest in the market.

## Diversification

By leveraging our FMI infrastructure, proven expertise and local network, international investors can diversify with confidence into new markets.

We help Latin American investors and institutions diversify their portfolios – in international bonds, equities, ETFs and investment funds. By going through Euroclear they can more easily optimise their assets, potentially using assets in one market to collateralise trades in another.

We also help local issuers diversify their financing activities through our global distribution, acting as a two-way conduit to expand their range of options.

# Global distribution

With our multi-currency system, we can support local issuers' foreign and local currency issuances under international law as well as their local currency issuance under local law. We have observed an increasing trend of international/foreign currency issuance in the domestic market. This, too, we can support.

Our local issuance/global distribution bond structure allows local issuers to benefit from Euroclear's global distribution, reach and asset servicing capabilities, while having the comfort and lower issuance costs of their local environment.

And as environmental, social and governance (ESG) issues become ever more important, we can help local issuers access a global investor base that includes many of the world's leading investors in ESG securities.

## Business resilience

We have proven resilience. Our operations and systems are robust and have been tested many times over. Our strong business continuity capabilities have always been highly valued by our clients – never more so than in times of crisis.

And the business resilience extends beyond our technical infrastructure. Euroclearability increases market resilience so that emerging markets can be less prone to capital outflows in uncertain times.

# Fixed income and equities

As a global financial market infrastructure, we provide settlement, safekeeping and asset servicing together with automated securities lending and borrowing to reduce our clients' risks and exposures.



## For our clients

- Euroclearability supports diversification by facilitating entry to markets that have typically been difficult to access. It makes things simple.
- It brings the same robust processes and consistent service standards investors have come to expect in more established markets.
- With the efficiency and security we offer, investors can make their investment decisions without having to take operational considerations into account. They can hold all their assets within a single pool and optimise their liquidity.
- Our multi-currency facility allows investors to settle in the currency of their choice.

*“We can access a wide variety of products at Euroclear. They offer a reliable and user-friendly platform and provide accurate real-time information. The team is very skilled and always willing to help.”*

**Luciano Diaferia**

Head of Treasury Products, Banco ITAÚ BBA



## For the market

- By making it easy for international investors to enter a market, Euroclearability deepens liquidity and lowers borrowing costs. A study by PwC found sovereign borrowing costs fell by an average of 28 basis points – the equivalent of one credit rating notch.
- Liquidity is one of the key requirements for inclusion in market indices. With the increased liquidity, a country's sovereign bonds are often added to, or accorded higher weightings in, emerging market bond indices. This has happened with Chile and Peru. This creates a virtuous circle as index funds are obliged to increase their own weightings.
- Our global distribution of foreign currency issues done in the domestic market allows issuers to meet their foreign currency needs without having to tap the international markets. We can also distribute a local currency issue in any accepted settlement currency on our books. Our multi-currency platform permits payments in either local or foreign currency.
- Euroclearability improves a country's ability to market new sovereign bond issuance internationally, extend maturities and develop a full yield curve. Peru and Chile are both going down this route. This also helps lift index weightings and reduce coupon rates.
- Euroclearability expands the range of international investors able to invest in certain markets. Some categories of investor can only invest in an emerging market through an International Central Securities Depository (ICSD) such as Euroclear.

## Panama

With the highest rate of growth in Latin America, Panama was keen to consolidate its position as a regional financial services hub and access a broader range of foreign investors.

Working with Euroclear, the Panamanian authorities effected a series of changes that made its government bonds Euroclearable, transforming the level of foreign participation in its market.

In 2019, it conducted its first international placement of local Treasury notes in a \$1 billion offering that saw participation from more than 100 accounts.

*“Our Euroclearable bond issuances have been successful in many ways. It has created important milestones for us in terms of demand, volume and investor diversification.”*

**Patricio Sepulveda**

Head of the Public Debt Office, Chile

## Peru

Historically, global investors were deterred from buying Peru's domestic 'Sol' bonds by a combination of limited liquidity and the need to have a local presence or custodian.

Seeking a market transformation, in 2014, Peruvian authorities started to partner with us in the effort to make government bonds Euroclearable.

Over the next three years, a series of tax, legal and regulatory reforms were enacted, and the first Euroclearable Sol-denominated bond was issued in July 2017. International investors took up 70% of the issue. Peru's cost of borrowing has since fallen significantly.

## Chile

Keen to open the local bond market up to foreign investment, the Chilean Ministry of Finance worked with us to set up an agenda for reform. What followed were major changes to tax and legal regulations at government, central bank and local market level.

The first government bond in the new system was issued in 2017 with record levels of foreign investor participation. Chile's weighting in JP Morgan local currency government bond index has since leapt from 0.1% to 2.8%.

# ETF and investment funds

We give Latin American investors low-cost and efficient access to international funds – both ETFs and investment funds.

FundsPlace, our funds service offering, provides fully automated investment funds order-routing, settlement and asset servicing. For ETFs, we have developed a new international structure that facilitates issuance and trading in multiple venues with settlement in one single venue,

Euroclear Bank. We are working with ETF issuers, stock exchanges, CSDs and CCPs in Latin America to further promote this model.

 **For our clients**

- Our infrastructure provides seamless and unique access to a wide range of funds in 28 domiciles. This streamlines how you connect to multiple intermediaries such as transfer agents and CSDs.
- Our low-cost and efficient solutions with highly competitive deadlines minimise settlement failure and the need for realignments.
- FundsPlace enables investors to hold their positions in a regulated Financial Market Infrastructure (FMI) and comply with AML/KYC rules applicable to investments funds while easing the associated burden and costs.

 **For local markets**

- The international ETF structure allows issuers to distribute the same ETF across multiple markets while still being able to issue domestically if they so choose.
- FundsPlace opens the way to cross-border fund distribution, allowing local asset managers to reach a wide international investor base. We have been discussing the associated opportunities with local fund associations.

### Bringing efficiency to Mexico’s ETF market

Foreign ETFs account for more than a third of daily trading volume in Mexico, but difficulties in moving European (UCITS) ETFs to Mexico historically resulted in high settlement failure rates, deterring investors.

Working with Indeval, the Mexican central securities depository, the local regulator and other market participants, we helped transform the custody and settlement environment for foreign ETFs traded on the Mexican exchange. The direct Euroclear custody and settlement arrangements for UCITS ETFs went live in late 2018.

International issuers have been listing their UCITS ETFs in Mexico since the new arrangements came into effect to meet rising local demand from pension funds in particular. The rate of adoption by local investors has increased rapidly, evidenced by the significant surge of trading volumes.

# Collateral management

We help our clients optimise the use of their securities as collateral for hedging transactions and other market activities. We mobilise over €1.4 trillion of collateral daily.

 **For our clients**

- Our Collateral Highway is a global, open-architecture infrastructure for collateral management, connecting investors to one of the world’s largest pools of collateral and counterparts.
- Being an open-architecture infrastructure, our Collateral Highway allows investors to keep their existing custodian relationship while allowing their assets to cover exposure using our collateral management programme.
- With all assets in a single pool, we make it easier for clients to mobilise any country’s securities to use as collateral – and they can be used to finance USD or any other exposures. It also becomes easier to repo in USD using, for example, Mexican or Chilean securities as collateral.
- We are a proven infrastructure that has already implemented phases one to four of Uncleared Margin Rules (UMR). We hold approximately half of all UMR collateral within our system. With the implementation of UMR Phases Five and Six, collateral optimisation will become even higher on the industry’s agenda. Our facility enables you to effectively mobilise and mix different securities as collateral within the same standardised framework.
- Many Latin American investors will have to meet the requirements of UMR, hence the need to lodge collateral through a secure international platform. We make it easier to combine multiple types of collateral, making it possible for local investors to lodge domestic securities as part of the mix within the same standardised framework.

 **For local markets**

- By making it easier to use Latin American securities as part of a collateral management programme, we increase the attractiveness of investing in the local markets – thereby sustaining liquidity.
- Increased liquidity further enhances international investors’ appetite for the market and diversifies the investor base.

# As the environment and the business needs evolve

We remain committed to bringing value to our clients as well as the local market eco-systems. We continue to work to expand the number of Euroclearable Latin American markets and asset classes; we also explore with market participants how Euroclear as a neutral FMI can help bring sustainable finance mainstream.

We regularly attend the World Bank meetings and have participated in the Latin America and the Caribbean (LAC) Debt Group forum. We welcome the opportunity to discuss the role we can play in supporting regional and national initiatives aimed at furthering integrating and strengthening local markets.

## More information



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You can count on support from your regular Euroclear team, and draw on additional expert assistance when required.



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