

**SUPERINTENDENCIA DE VALORES DE
COLOMBIA**

**THE REFORM IN THE
COLLECTIVE INVESTMENT
INDUSTRY IN COLOMBIA**

March 2.003

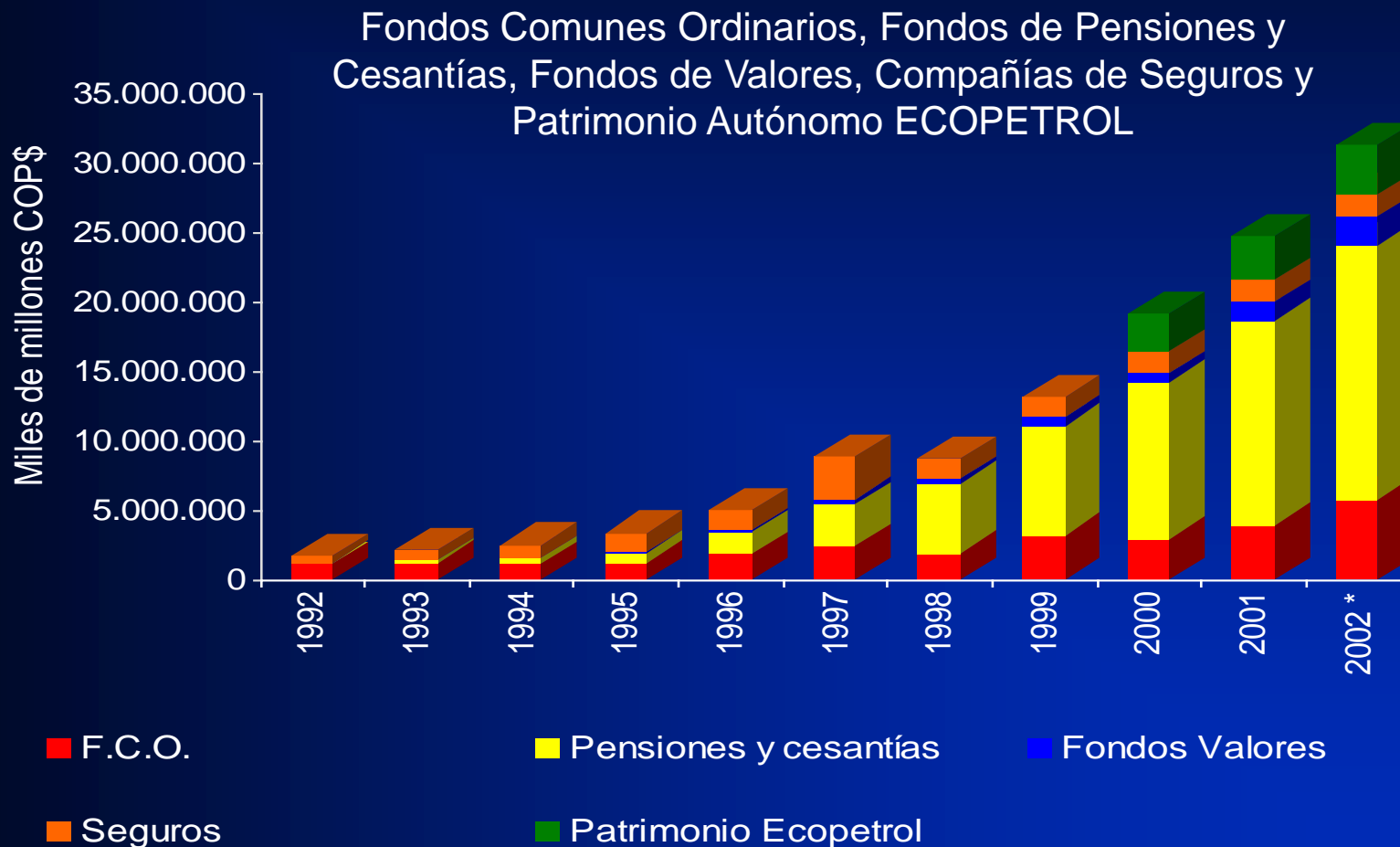


AGENDA

- Background of the collective investment industry in Colombia
- Structural problems
- Importance of the reform needed
- Proposal of change



THERE HAS BEEN GREAT GROWTH OF THE COLLECTIVE INVESTMENT SCHEMES (CIS) IN COLOMBIA IN THE LAST YEARS...



* Septiembre 2002

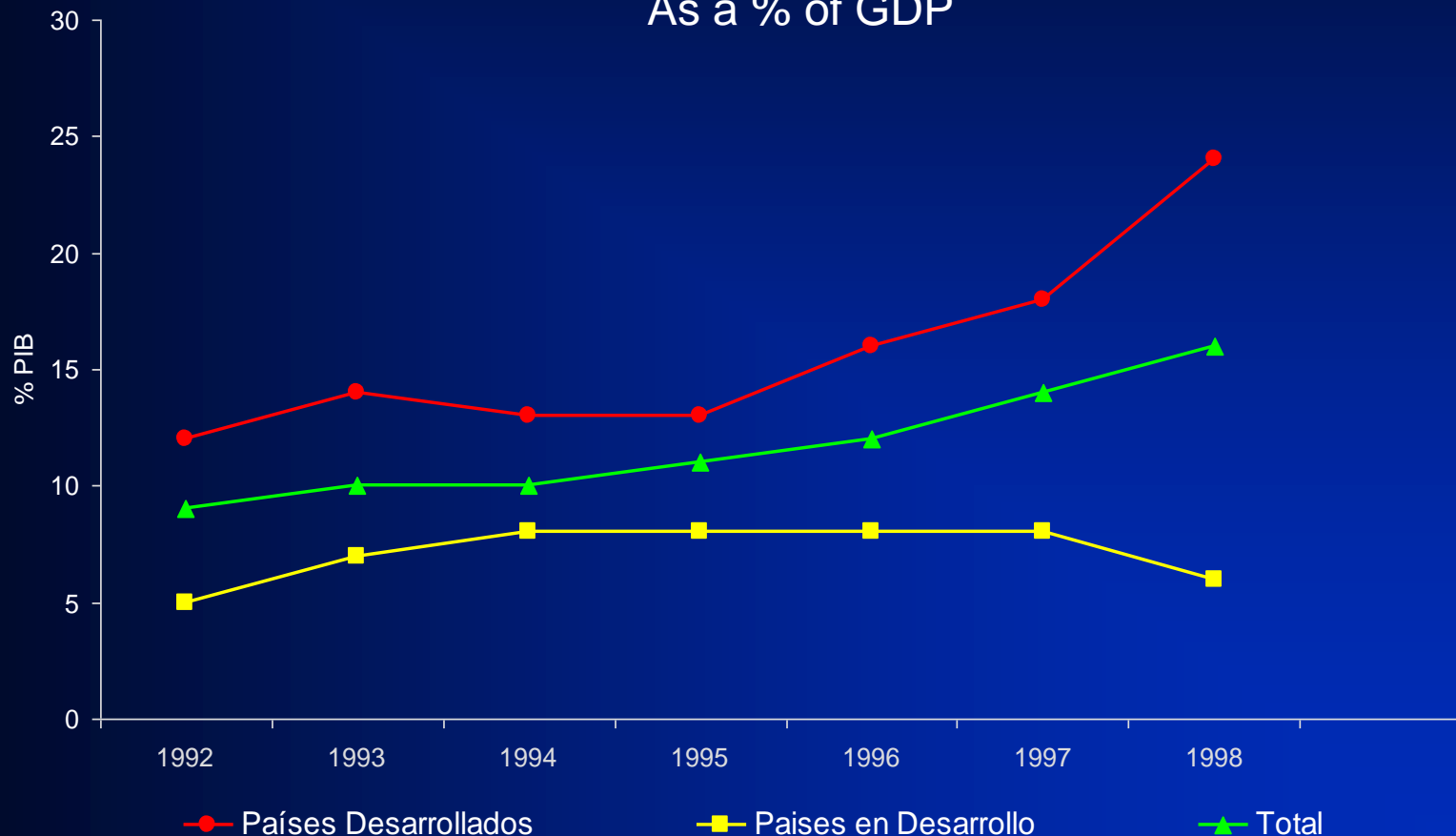
FUENTE: Sistema de Información Superintendencia de Valores y Superintendencia Bancaria.



INTERNATIONALLY A POSITIVE RELATION EXISTS BETWEEN IMPORTANCE ON CIS AND ECONOMIC DEVELOPMENT...

Net Assets Managed by CIS

As a % of GDP



* Septiembre 2002

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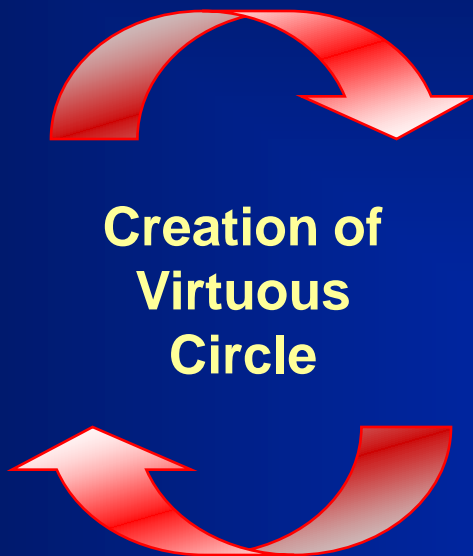
THERE IS A VIRTUOUS CIRCLE BETWEEN GROWTH OF THE ECONOMY AND GROWTH OF THE CIS

INCREASE OF INSTITUTIONAL INVESTORS

- ✓ Inflow of money from households to capital markets
- ✓ Channel demand to different sectors of the economy
- ✓ Trust of investors in system

DEVELOPMENT OF CAPITAL MARKETS

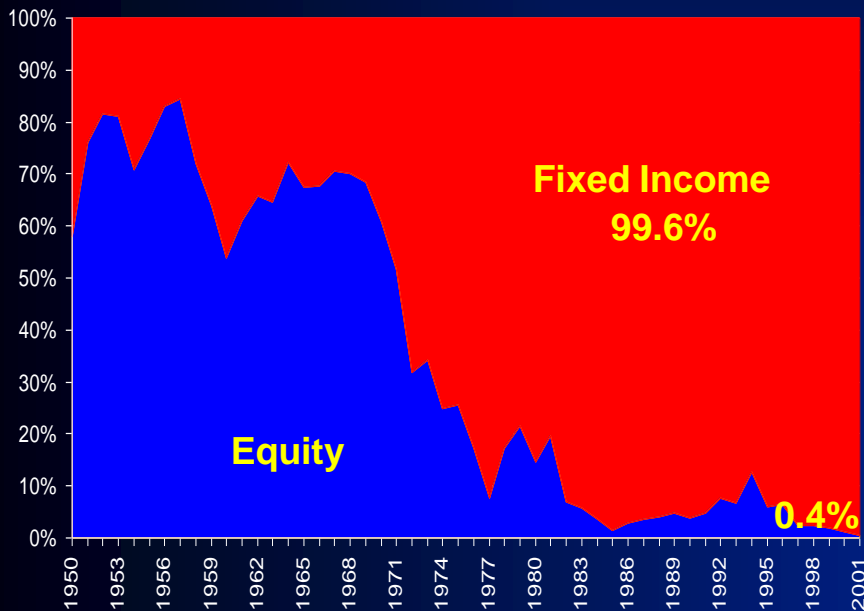
- ✓ More liquidity
- ✓ More issuers
- ✓ wider variety of supply of issues
- ✓ lower transaction costs
- ✓ increases market efficiency



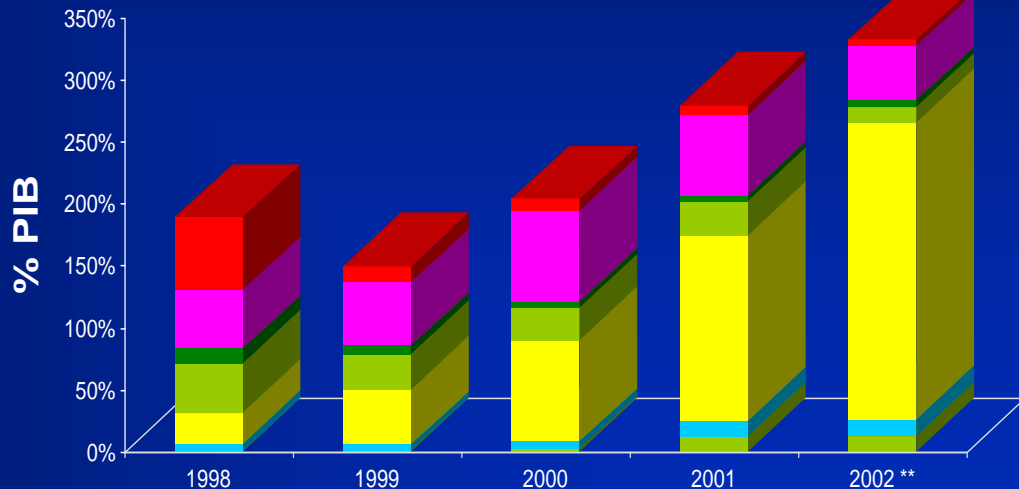


...BUT, HAS THIS VIRTUOUS CIRCLE APPEARED IN COLOMBIA?

Evolution of the capital markets (1950-2002)



CAPITAL MARKET – FIXED INCOME NEGOTIATIONS BY TYPE OF ISSUES 1998 – 2002



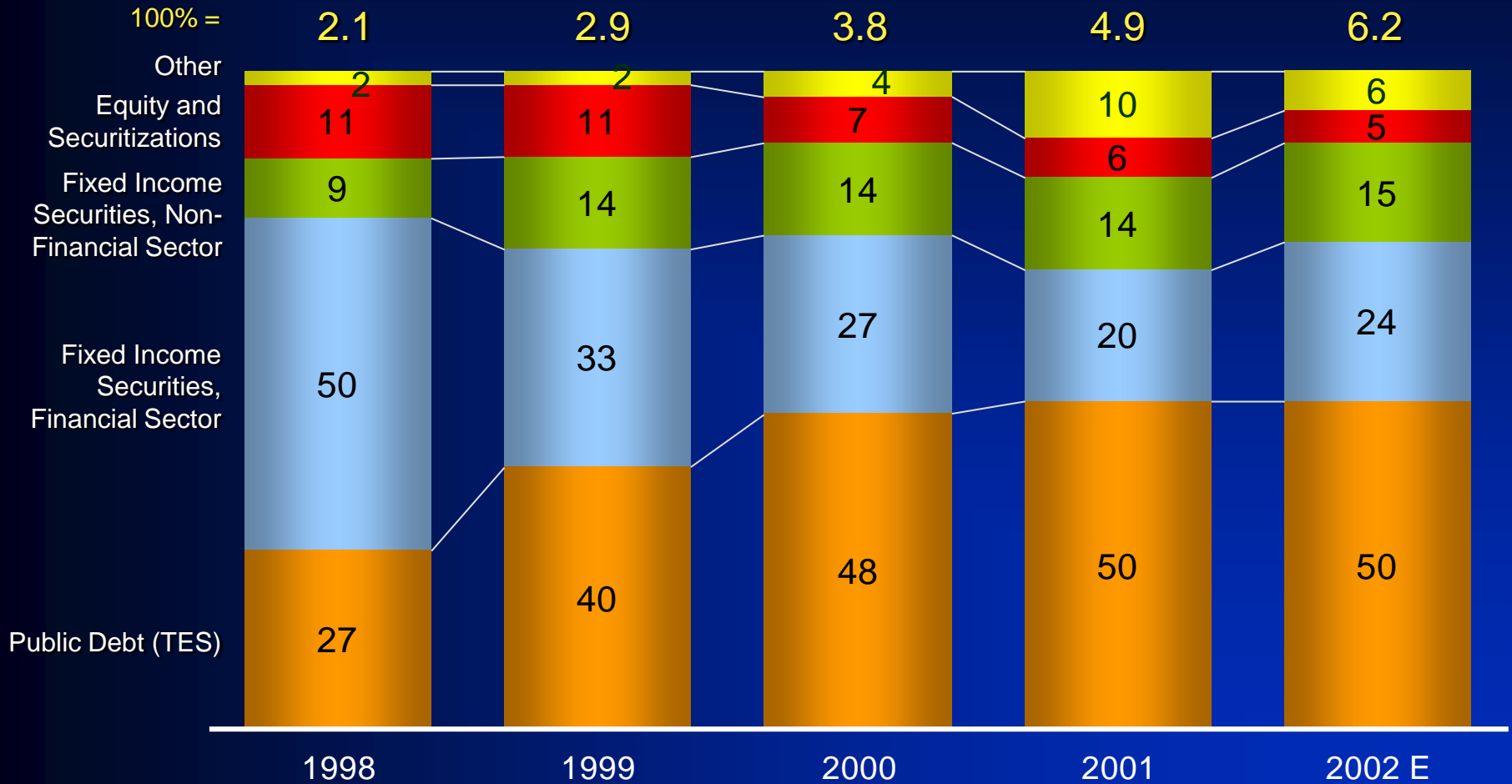
- BONOS DE DEUDA EXTERNA
- BONOS PUBLICOS
- TES
- CDT
- BONOS PRIVADOS
- OPERACIONES REPO
- OTROS

FUENTE: Sistema de Información Superintendencia de Valores.



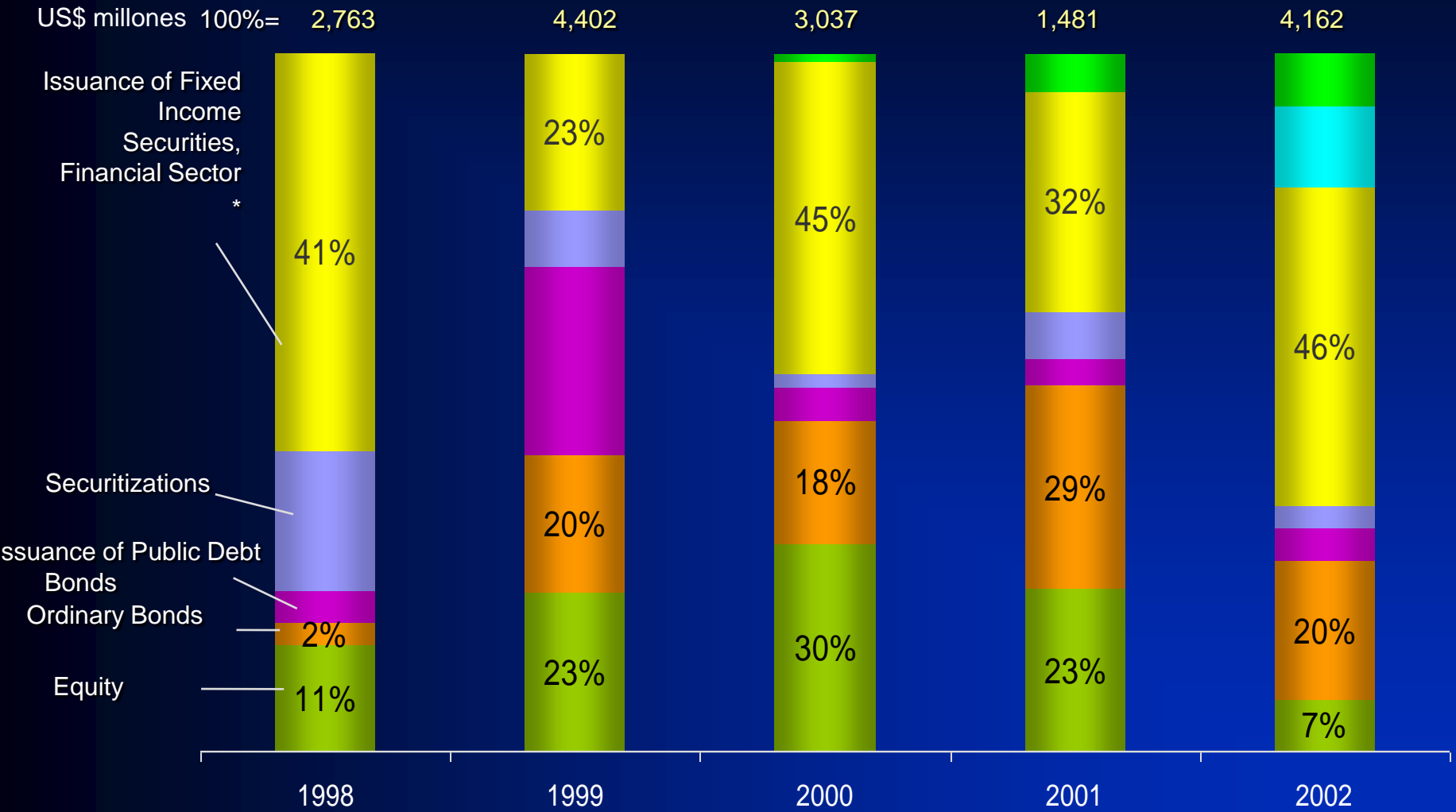
COMPOSITION OF THE PORTFOLIOS OF THE OBLIGATORY PENSION FUNDS IN COLOMBIA

miles de millones US\$, porcentaje






AT THE SAME TIME THERE ARE VERY FEW IPO'S...



* (1) Las ofertas con inscripción automática para el 2000, incluyen una oferta de Notas por US\$ 115.000.000 y otra de Bonos Global por US\$250.000.000. Para el 2002 se incluyen \$478.901 millones de la inscripción automática de los TIPs.

Fuente: Supervalores



Although institutional investors
have grown in the past years,
they have **NOT** had the
expected impact in the
development of the Colombian
securities market.

¿WHY?



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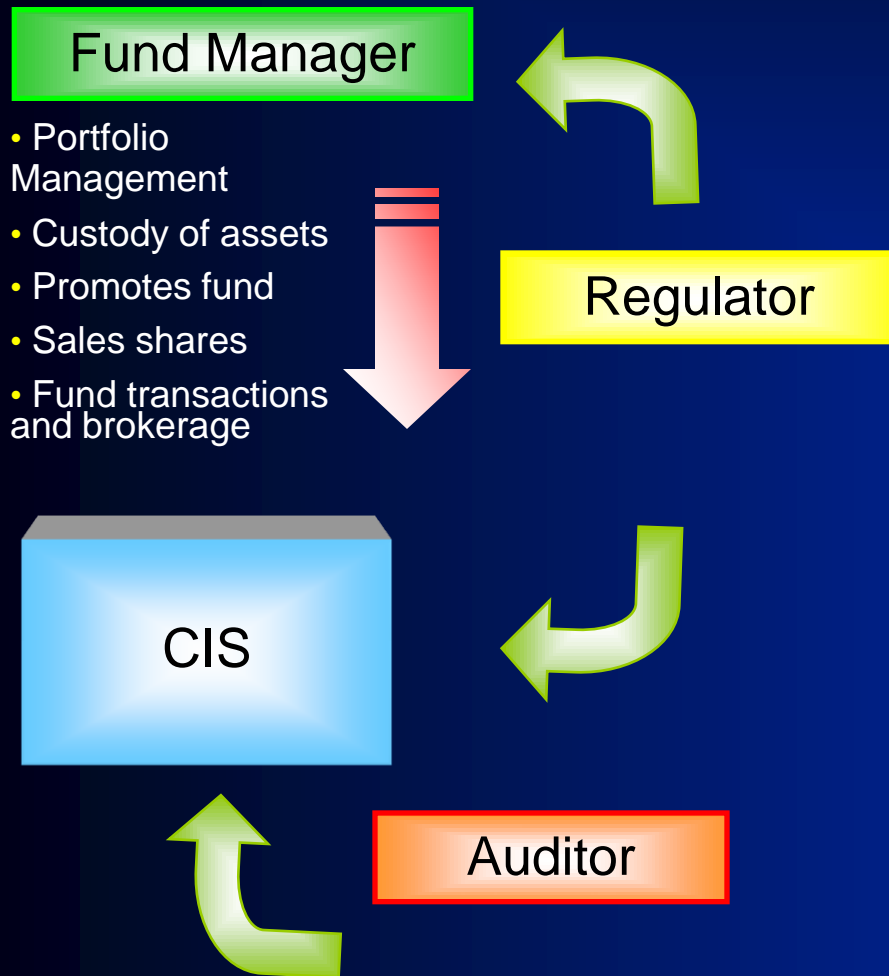
COLLECTIVE INVESTMENT INDUSTRY IS FRAGMENTATED...

Type of Fund	Fund Manager	Supervised by	Legal Framework
Fondos de Valores	Brokerage Firms	SV	Res. 70/2001 y Res. 1200 Título 7
Fondos de Inversión	Management Firms	SV	Res. 70 2001 y Res. 1200 Título 7
Fondos Comunes Ordinarios y Especiales	Trusts	SB	Estatuto Orgánico del Sistema Financiero – Título V capítulo 1 y 3
Fondos de Pensiones Obligatorias, Voluntarios y de Cesantías	Pension Fund Managers	SB	Estatuto Orgánico del Sistema Financiero – Título V capítulo 5 y 6
Fondos Mutuos de Inversión (equivalente a los fondos de empleados pero con un 50% de inversión por la empresa)	Company	SV	Decreto 2968 de 1960 y sus modificaciones.



FUND MANAGERS PROVIDE ALL THE SERVICES...

Colombian Current System



Weaknesses of the System:

- High risks of conflict of interest.
- The system has no "checks and balances".
- Weak defense of investors.
- All supervision in hands of supervisor.



... AND THERE ARE TWO SUPERVISORS WITH DIFFERENT FOCUS

BANKING SUPERINTENDENCY

- ✓ Prudential regulation
- ✓ Systemic Risk
- ✓ Government insurance

SECURITIES SUPERINTENDENCY

- ✓ Investor protection
- ✓ Market integrity
- ✓ Transparency
- ✓ Market Development

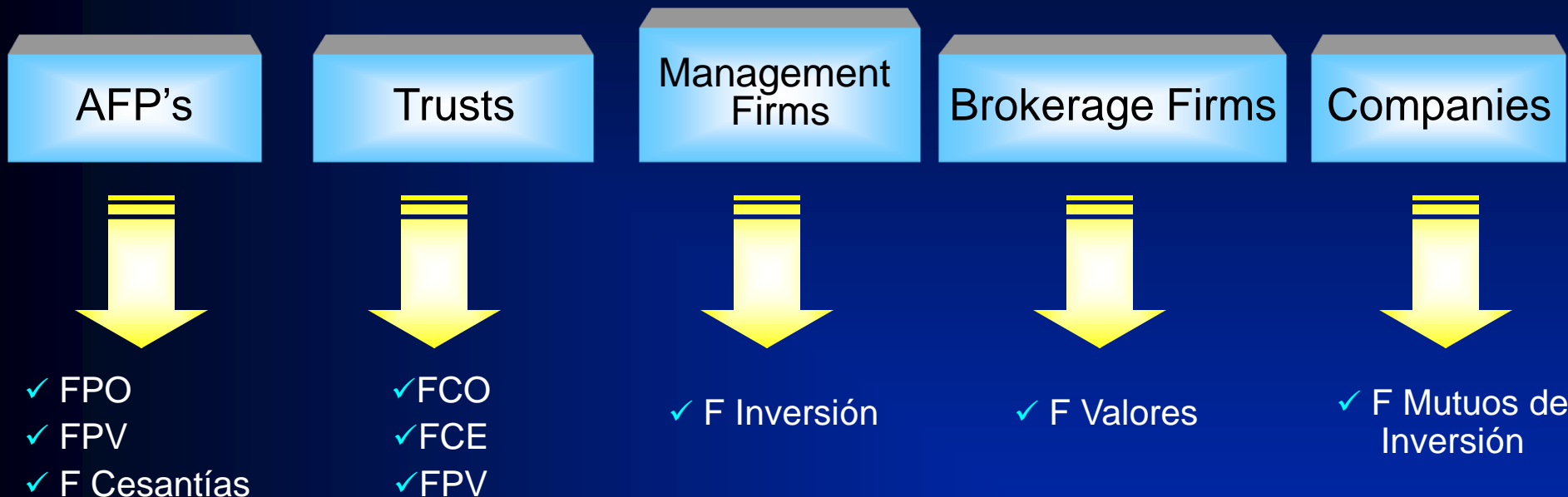


THESE FACTORS GENERATE STRUCTURAL PROBLEMS TO THE FOLLOWING PLAYERS:

- Investors
- Regulators
- Industry



INVESTORS CONFUSED BECAUSE THERE ARE MANY PRODUCTS THAT ARE THE SAME BUT HAVE DIFERENT PACKAGING...



Carry out same activity:

Manage Collective Investment Scheme



ADDITIONALLY, THE LACK OF CHECKS AND BALANCES DECREASES INVESTOR CONFIDENCE IN THE SYSTEM...

- ✓ Public confidence is a public good and the base for a consolidated collective investment industry
- ✓ Only if there is confidence in the whole industry of collective investment schemes, can there be confidence in one particular one.
- ✓ Any scandal where someone loses money brings as a consequence the loss of confidence in the whole system. It can take years for the confidence to rebuild itself

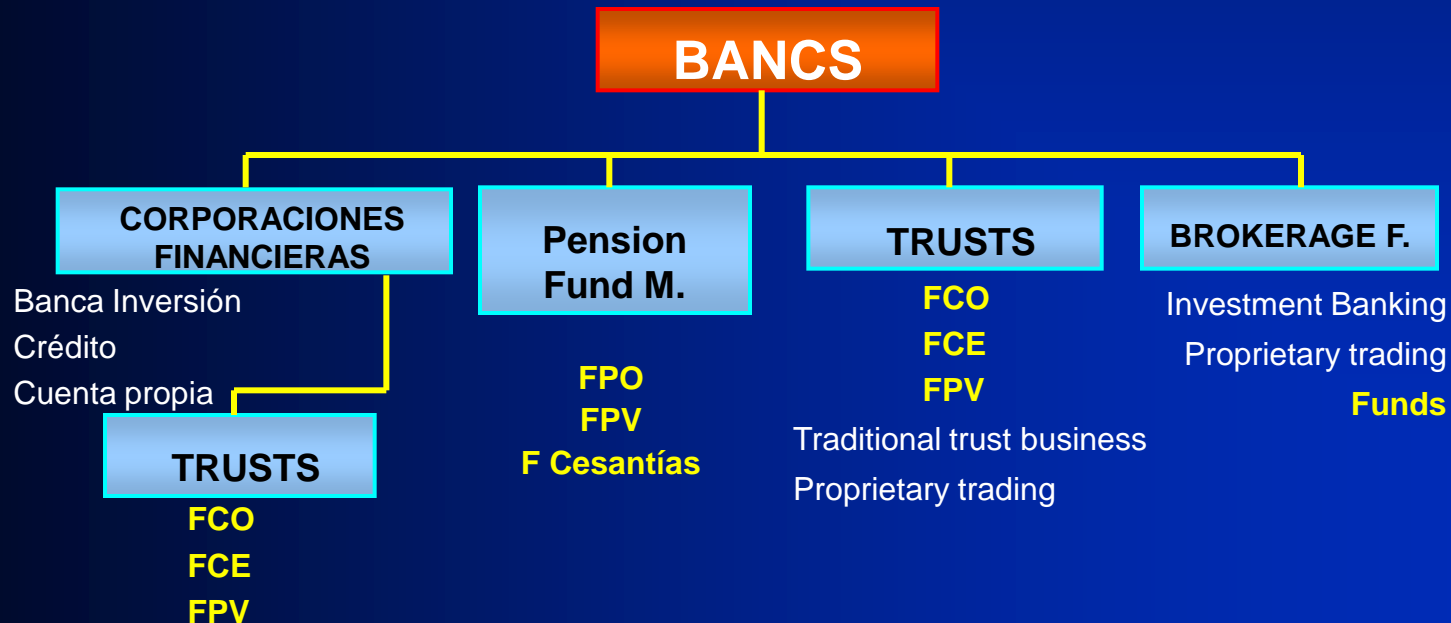


Colombian example: loss of confidence in the public debt market (August 2002)



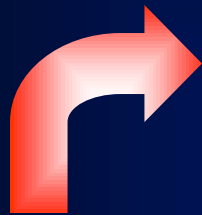
ON THE OTHER HAND, INDUSTRY IS AFFECTED BY THE LACK OF ECONOMIES OF SCALE ...

- ✓ Industry fragmentation:
 - Lack of specialization and competition
 - Lack of dedicated and specialized channels of distribution
 - Low industry standards
 - Dominance of banking sector



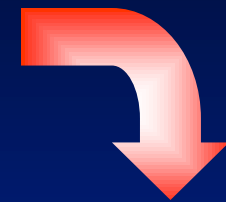


AND THE LACK OF RISK MANAGEMENT CULTURE...



Paternalistic Regulation

(minimal returns, fund rating, prospectus approvals).

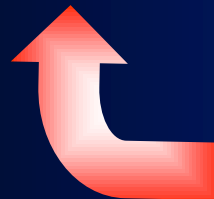


Badly educated and misinformed investors

reasserts paternalistic regulation

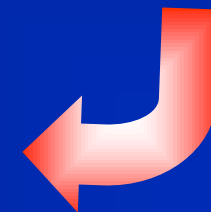
Creation of Vicious Circle

Lack of Risk Management from fund managers due to industry fragmentation



Non specialized channels of distribution

that do not explain correctly that investor must share risks of investments, thus the investors are uninformed.





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COLOMBIAN REQUIRES A COMPREHENSIVE REFORM THAT:

1. Increases investor confidence in the system
2. Optimizes fueling of savings to productive sectors of the economy
3. Strengthens the CIS industry so that it can stimulate the securities market
4. Assures the balance in the industry between the interests of the investors and the managers
5. Increases industry standards to include IOSCO principles



INSTITUTIONAL INVESTORS HAVE GREAT POTENTIAL OF GROWING IN COLOMBIA...



Fondos % PIB

6%	8%	11%	15%	20%	25%	31%
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Obligatory pension funds will represent 30% of GDP in 10 years

Relation between resources managed by CIS and GDP (Does not include Pension Funds)

PAIS / AÑO	1997	1998	1999	2000
EEUU	57 %	67 %	78 %	73 %
FRANCIA	35 %	44 %	46 %	53 %
CANADA	33 %	37 %	44 %	42 %
ESPAÑA	32 %	43 %	37 %	31 %
BRASIL	13 %	15 %	15 %	26 %



WE ANALYZED WHAT WERE THE COMMON CHARACTERISTICAS THAT EXPLAIN THE DEVELOPMENT OF CIS IN THE FOLLOWING COUNTRIES:

- ✓ United States
- ✓ Canada
- ✓ Great Britain
- ✓ Australia
- ✓ Spain
- ✓ Mexico
- ✓ Chile
- ✓ Brasil



... AND THE MAIN LESSONS FOUND WERE:

- ✓ Legal structure clearly defined
- ✓ Existence of qualified and independent custodian
- ✓ Manager can delegate activities but not responsibilities
- ✓ Operators require license. Supervisor reviews if person or company has minimal standards.
- ✓ Conflicts of interest clearly defined and controlled.
- ✓ Investors have rights clearly defined and have vote.
- ✓ Only one regulator with emphasis on investor protection and clear disclosure.



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CONCRETE PROPOSALS TO BE EXECUTED IN THE SHORT TERM:

- ✓ Harmonize regulation to preclude regulatory arbitrage.
- ✓ Promote risk management culture where fund managers can offer different types of risk and investors can construct their own asset allocation.
- ✓ Incentivate specialization of different players.



... CONCRETE PROPOSALS TO BE EXECUTED IN THE IN THE MEDIUM TERM:

- ✓ Fund managers must dedicate exclusively to this activity
- ✓ Increase *checks and balances* of the system through:
 - The need of independent custodial that must accomplish supervisory functions
 - Compliance committee´s
 - Compliance officer
- ✓ Unify regulation and only one regulator
- ✓ Create higher standards for portfolio managers, risk managers and sales force
- ✓ License requirements for the different players



HOWEVER, SOME OF THE BIGGER CHANGES REQUIRE A LAW TO PASS:

- ✓ Changes expected to introduce through law:
 - Regulation based on activity and not entity
 - Only one supervisor for collective investment schemes.
 - Creation of a company dedicated exclusively to managing collective investment schemes
 - Independent custodian



ACTIONS THAT HAVE BEEN TAKEN:

- ✓ Meetings with World Bank members who approve of changes
- ✓ Signature of agreement between Banking and Securities superintendencies
- ✓ Workshop with industry where following consensus was reached
 - Harmonize and homogenize regulation.
 - Increase Standards.
 - Increase *Checks & Balances*

- ✓ Meetings with the committee (SB–SV)
- ✓ Agreement with government
- ✓ Must take place meetings with industry