

2016 IOSCO Annual Conference

Changing times? How to face current and future challenges? A view from Peru and MILA

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Less than 7 years ...

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... our expectations were big and positive...

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	Expectations / Prices
MILA GDP Growth	5% - 7%
Growth in Traded Volumes in Exchanges	12% anual
Expected Market Returns	8% - 10%
F/X Expected Revaluation / Devaluation	2% / -5%
Growth of AUMs	13% anual
WTI Copper Gold Silver	USD 111 USD 3.7 USD 1,675 USD 30.3

But...the world changed

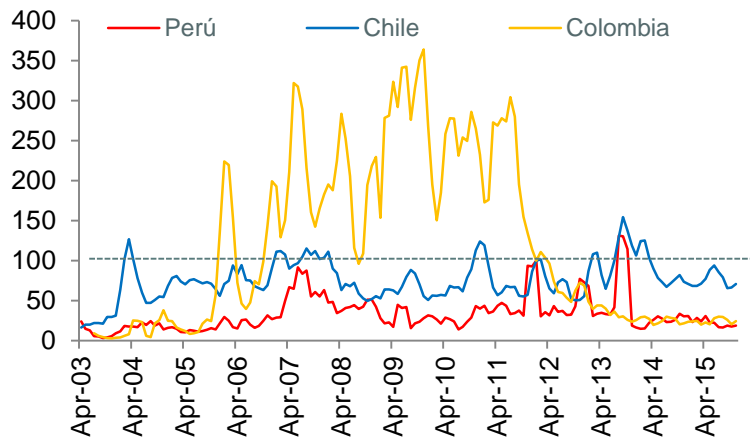
... and reality was different...

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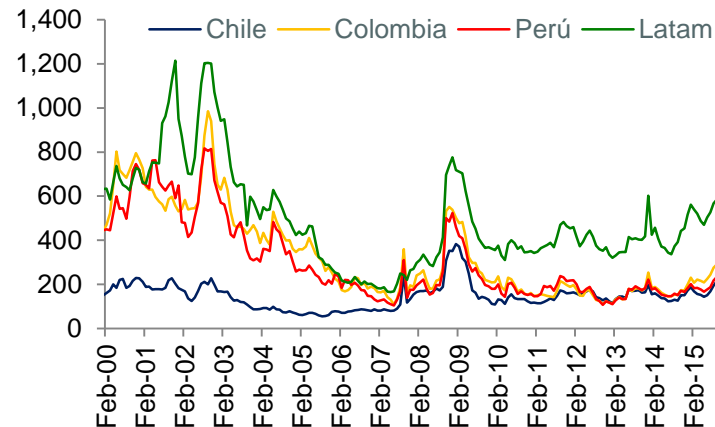
	Expectations / Prices		What happened?
MILA GDP Growth	5% - 7%	➔	2% - 3%
Growth in Traded Volumes in Exchanges	12% anual	➔	-14% anual
Expected Market Returns	8% - 10%	➔	-31% (2015)
F/X Expected Revaluation / Devaluation	2% / -5%	➔	-8% / -30% YTD
Growth of AUMs	13% anual	➔	2% anual
WTI Copper Gold Silver	USD 111 USD 3.7 USD 1,675 USD 30.3	➔	USD 27 - 44 USD 1.95 - 2.10 USD 1,050 - 1,260 USD 13.7 - 17.1

... positive momentum was lost...

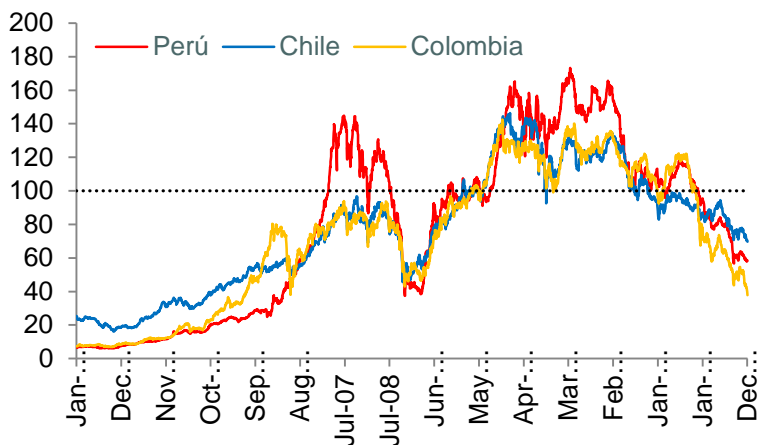
Traded Volume (Volumes in USD, Jan-12 = 00)



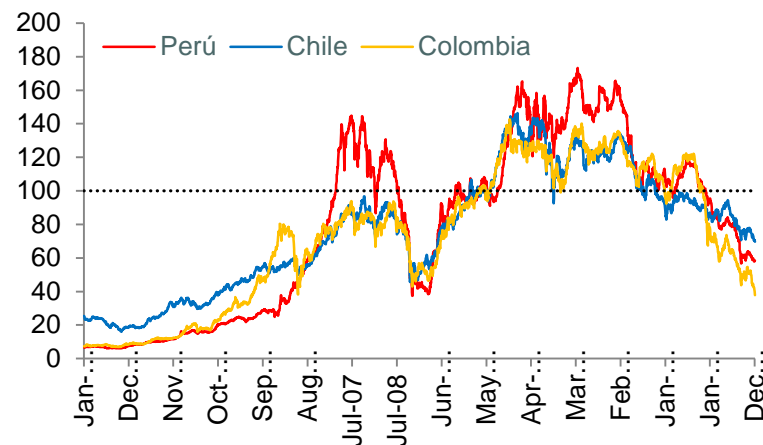
Country Risk (EMBI*)



MILA Equity Indices (3m moving average, Jan-10 = 100)



Nominal Exchange Rate (Local Currency per US\$, Jan-10 = 100)



Is this the new reality?

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- ***We have a complicated world:***
 - New recession or slow growth?
 - What will happen to China? How can we know?
 - US Interest rate increases / Strengthening of the US Dollar.
 - Emerging Markets or Depressing Markets?
- ***...that presents great challenges, but also opportunities***

The Chinese Symbol for Crisis



Danger

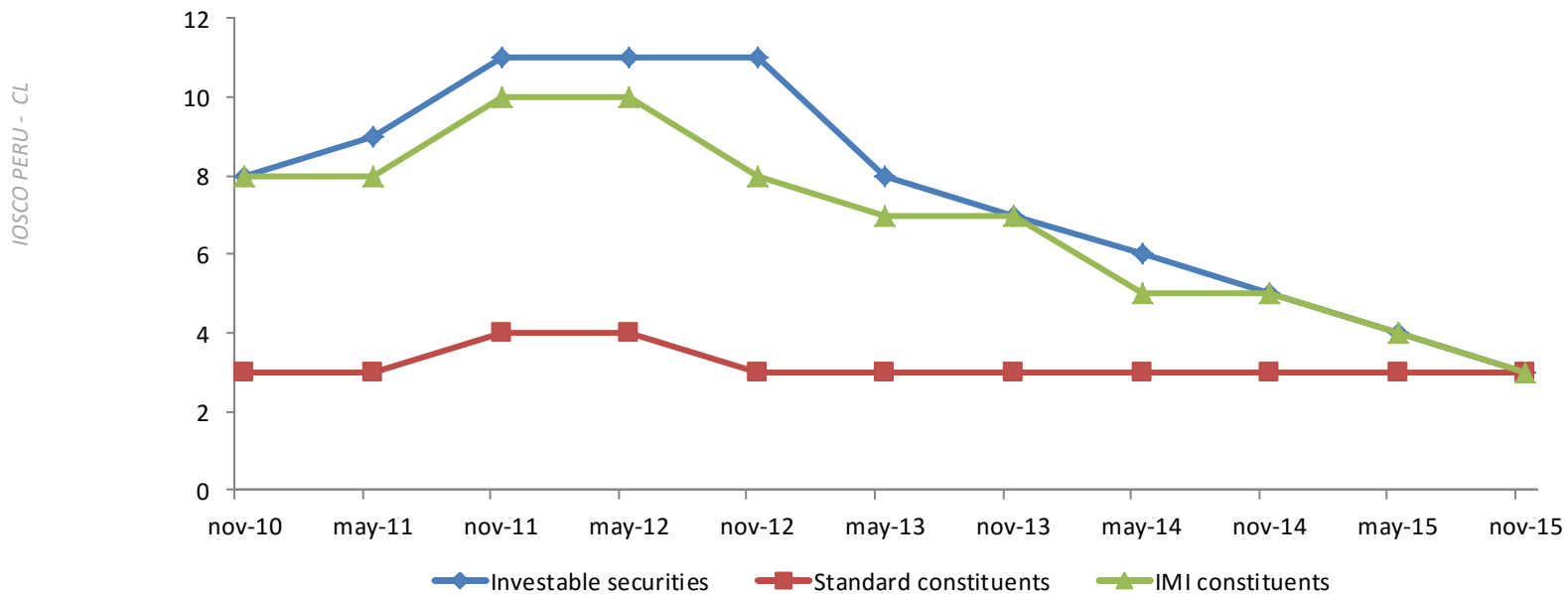
Opportunity

Peru's case: Emerging Market or Frontier Market?

Consultation process context

Investable securities for MSCI has decreased significantly in recent years.

MSCI Peru - number of constituents evolution

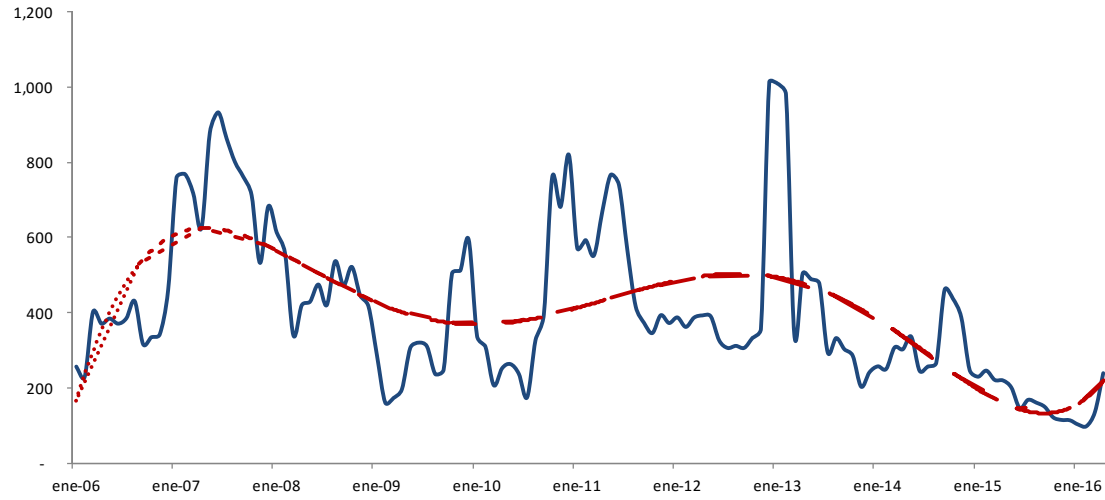


Source: MSCI

Consultation process context

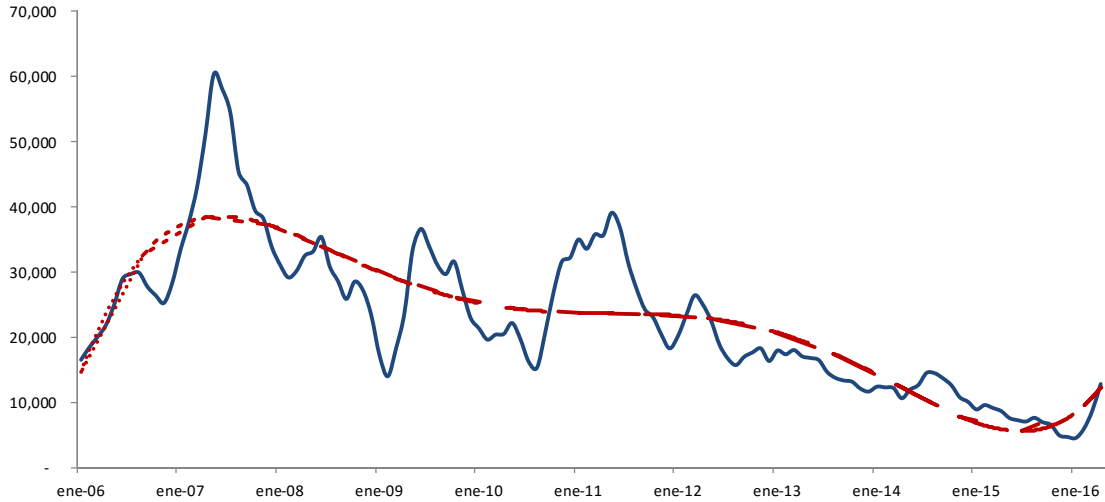
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Lima Stock Exchange: Monthly equity traded volume - 3m moving average (US\$ million)



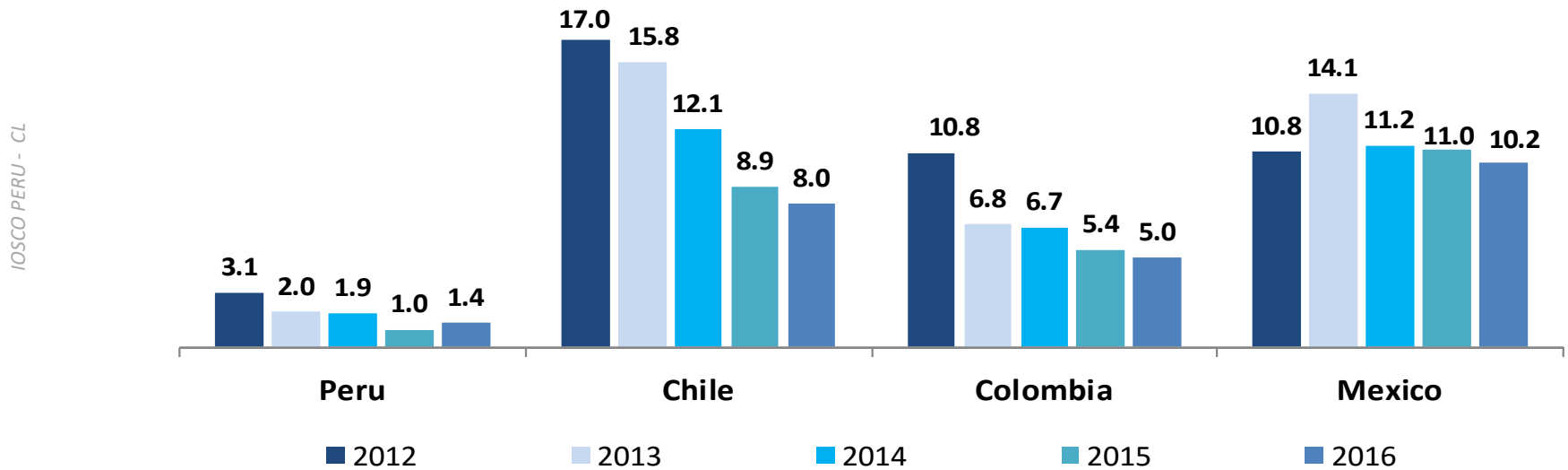
Source: BVL

Lima Stock Exchange: Monthly equity number of orders - 3m moving average



Source: BVL

Traded Volume / GDP - MILA (%)

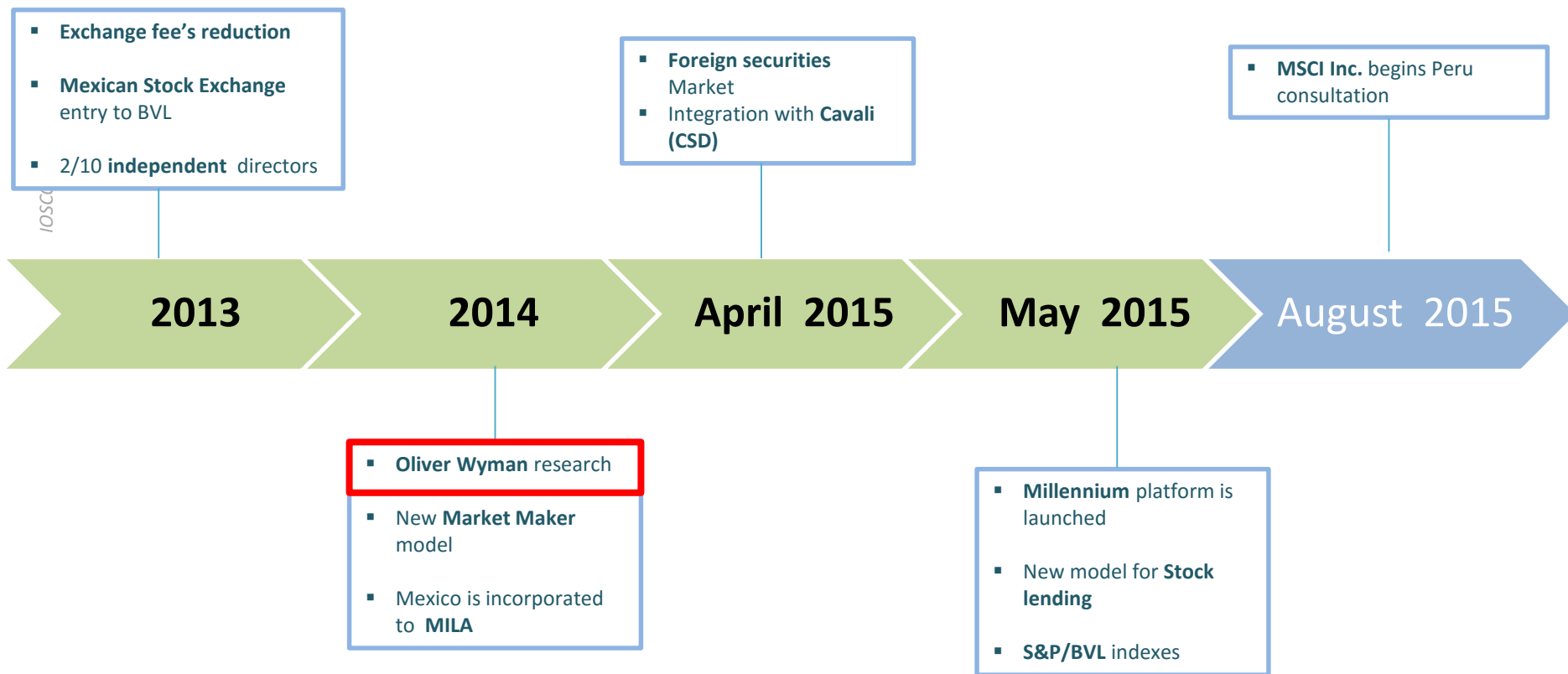


Source: WFE, FMI and BCRP

What does changing from Emerging Market to Frontier mean?

- Perú is currently 0.4% of the MSCI Emerging Markets Index and would become 12.0% of the MSCI Frontier Markets Index → 30x
- The Pool of Funds on MSCI EM compared to MSCI FM → 130x
 - EM = 1.6T vs FM = 12BB
- When we comply again, we come back to EM
- It takes 7 -10 years to move back from FM to EM... if we do everything right.
- We have done everything right as a country and investors want to see more of Perú, not less...

What had we been doing?



Peru wishes to continue developing its capital markets and aspires to become a regional capital markets hub

Vision for market development

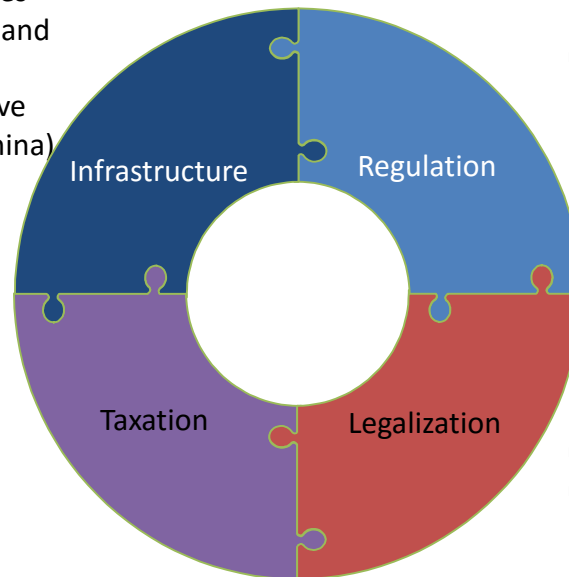


Successful capital markets share common characteristics that can provide key lessons for Peru's development



Key characteristics of successful capital markets

- Broad base of investors, issuers and intermediaries
- Broad range of products and services
- State of the art market technology and infrastructure
- Strategic anchor to clear competitive advantage (e.g., trade, access to China)

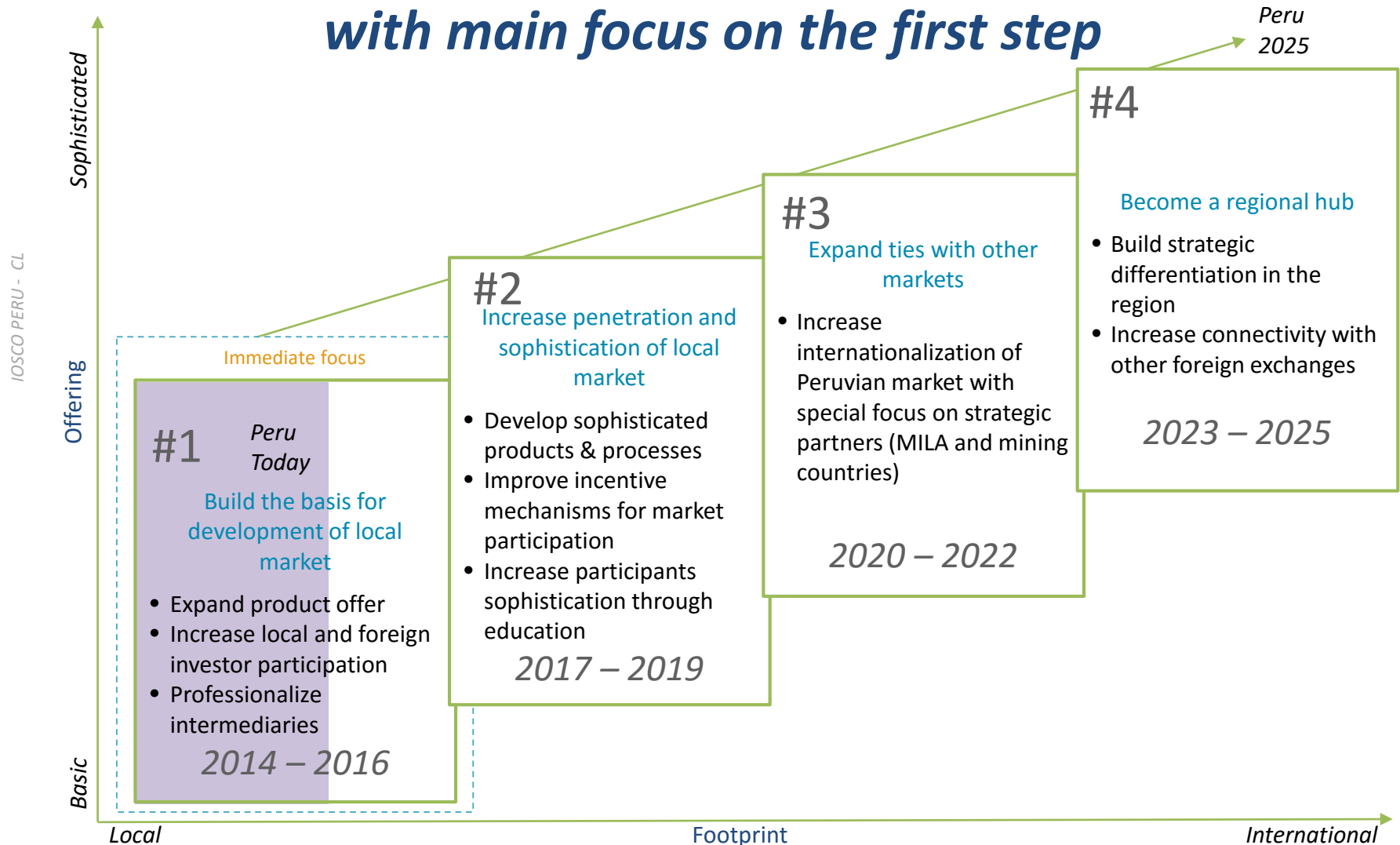


- Strong government support for Capital Markets
- Light and simple (non bureaucratic) business regulation

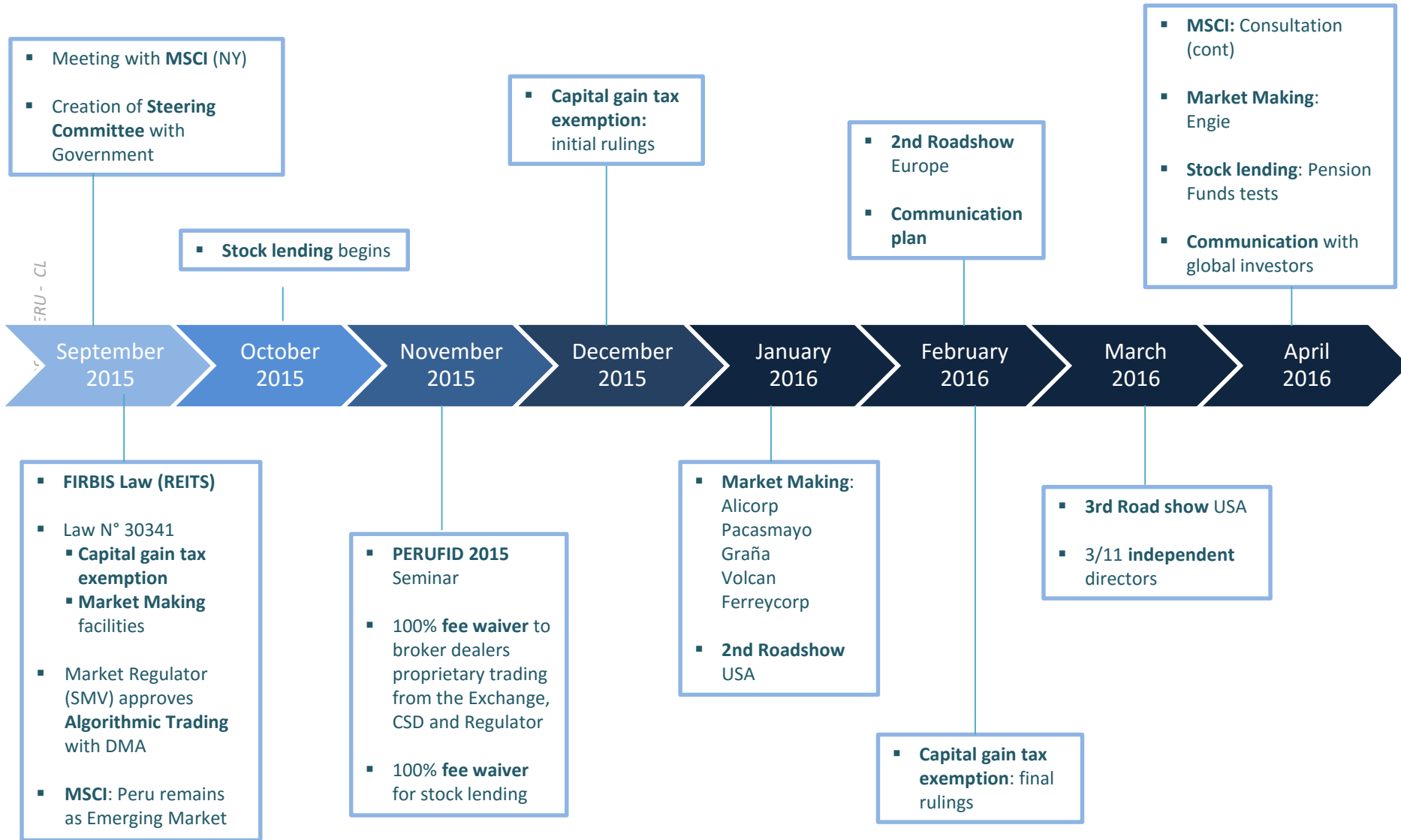
- Tax regime that incentivizes market participation

- Enforcement of laws and property rights
- Good corporate governance

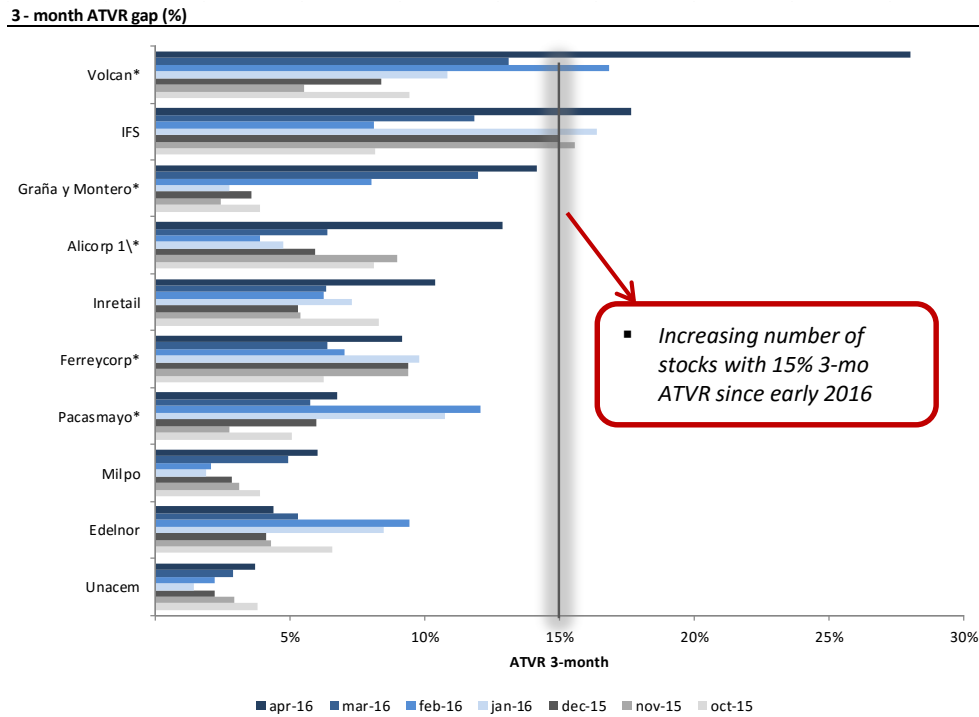
We have designed a four step approach for Peru to work towards becoming a capital markets regional hub; with main focus on the first step



What happened from August / September 2015?

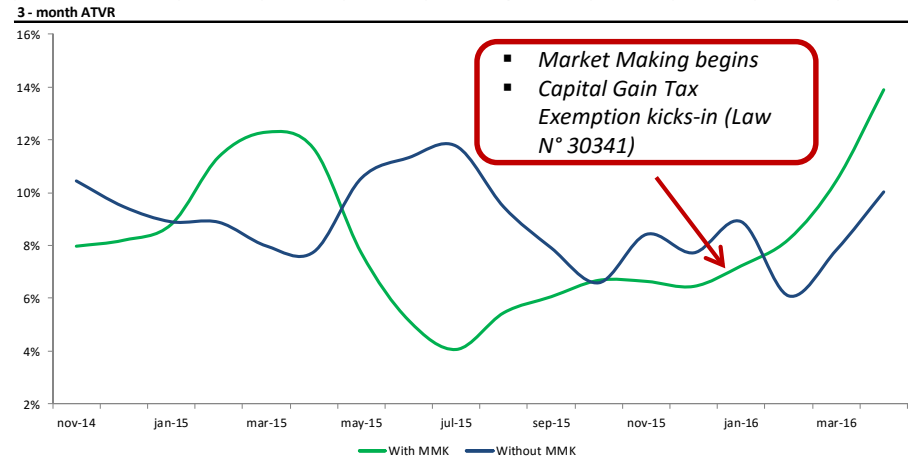


Market Performance



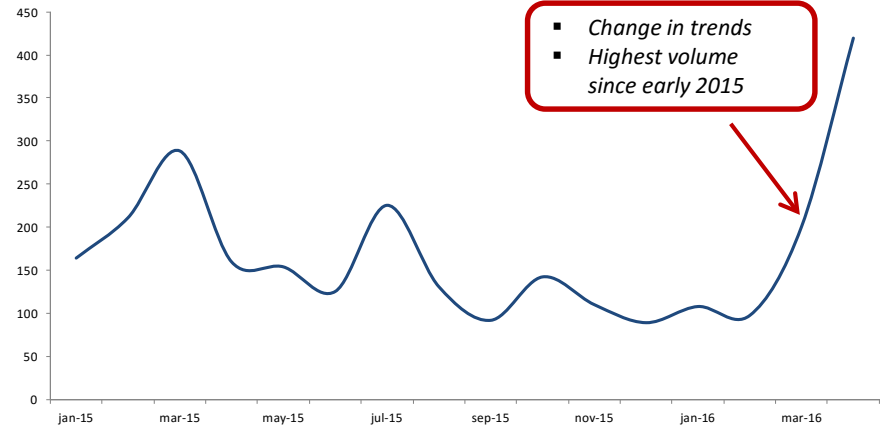
1) Considers a FIF of 0.55.
* Stocks with Market Maker

BVL estimates based on MSCI methodology



BVL estimates based on MSCI methodology

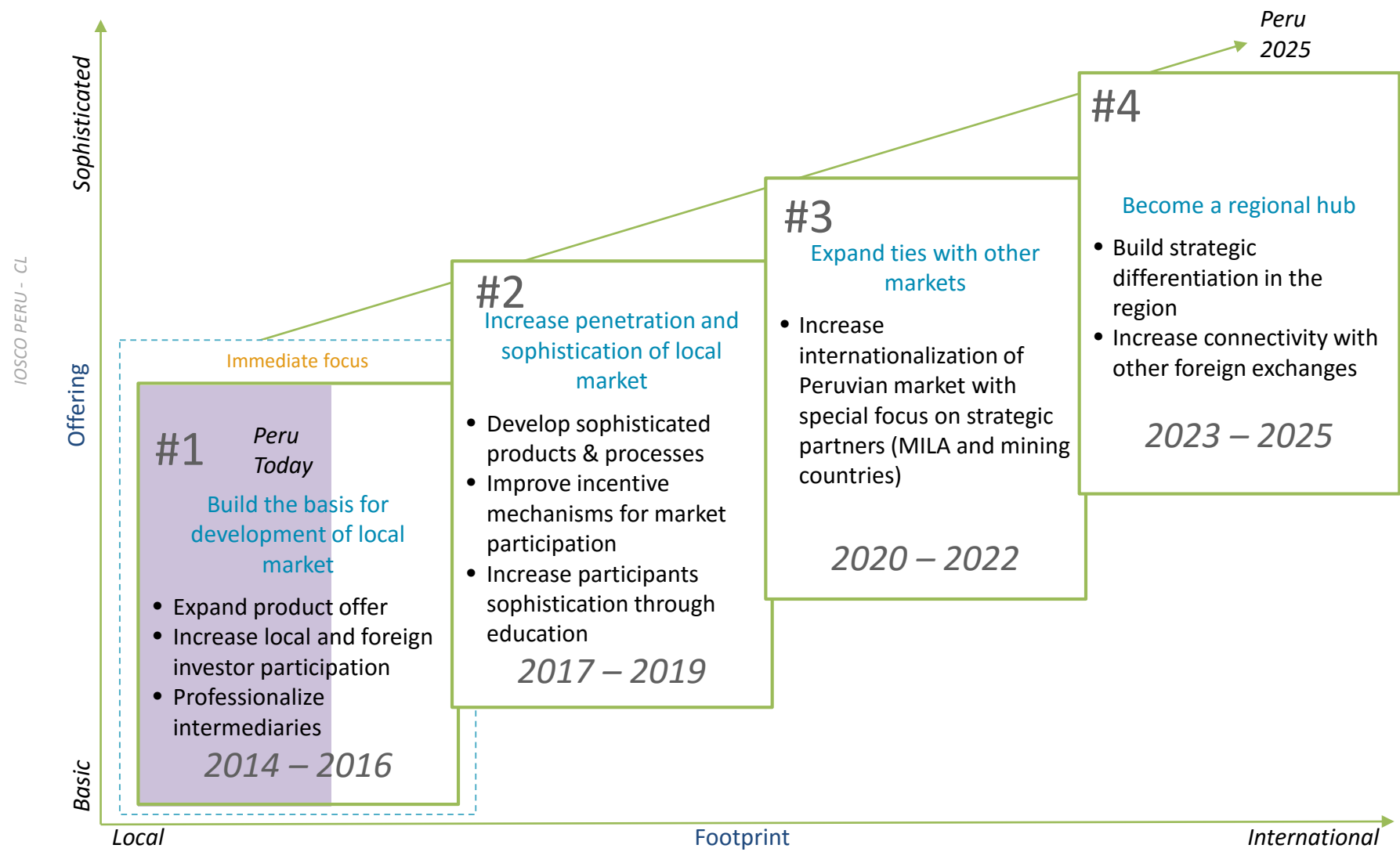
Lima Stock Exchange: Monthly Traded Volume - equity (US\$ million)



Source: BVL

What comes next?

Continue executing our plan... with some adjustments



- Having well developed Capital Markets is key for supporting growth in any country. It should be a key priority of every government agenda
- This Agenda should be shared by the public and the private sector. It's key to have a positive agenda between regulators and regulated parties.
- Regulation is good...
 - ...until it becomes too restrictive or bureaucratic... Where is the balance?
- Development of Capital Markets is very different around the world and in regions.
 - Can we have regulation that fits all these cases?
 - Can regulation limit the development of less developed markets?
 - How do we have a regulation that incorporates more players to the game? What's the benefit for a SME?
 - How do we protect and educate investors?
- How to deal with multi national regulation? Should we develop supra national regulation?

Thanks

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