

Bolsa Institucional de Valores:

A new financing option for Mexican SMEs

The Mexican securities market is finally adding competitiveness and innovation to its sector. After operating for almost half a century with one single player, the only stock exchange in Mexico is about to confront a new competitor that will try to attract a broader range of participants to the market.

Mexico's capital market outlook

The range and depth of securities markets vary significantly from country to country. According to a 2017 report from the World Federation of Exchanges, Mexico has the world's 15th largest economy, while only having the 23rd largest with regards to market capitalization. Most of the countries that precede Mexico's place in the GDP scale have multiple exchanges: United States with 11, Canada with five, England and Spain with four, and France and Italy with two; Brazil is currently in the process of authorizing a second exchange.

In the much more comparable Latin American market of emerging economies, Mexico is still behind in terms of stock market capitalization. According to World Bank data, during 2016 the stock market in countries such as Chile, whose economy is a fourth in size compared to Mexico, represented about 86% of its GDP at the end of last year, while the Mexican market only represented 34%. Additionally, Brazil's securities market constituted 42% of the country's GDP with more than 400 shares listed on its currently existing exchange.

In recent years, the national capital market has contributed on average only between 30 to 40% of the country's total GDP. During this time, new products have been introduced, such as the development capital certificate (*Certificado de Capital de Desarrollo*, or **CKD**), and increased transparency measures and better quality of governance and institutions have contributed to improve the market's financial performance.

Following examples of other economies around the world that have evolved towards competitiveness between exchanges creating better offers of products for intermediaries, investors and issuers, Mexico is betting on a new stock exchange. This new platform will offer an alternative for financing, thus encouraging investment in companies that will consequently make the industry and the economy grow.

BIVA's origins

Bolsa Institucional de Valores (**BIVA**) first originated as a project from Central de Corretajes, S.A.P.I. de C.V. (**CENCOR**), a corporate group focused on the development of infrastructure for the financial markets in Mexico.

In early 2013, CENCOR submitted the project to the Mexican financial authorities in an effort to create a new securities exchange. Since then, it has worked closely with the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público (SHCP)*), the Bank of Mexico (*Banco de México (BANXICO)*), and the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores (CNBV)*) towards its development.

On 29 October 2015, CENCOR formally requested a concession to form and operate BIVA, which was granted on August 29 2017. On this date, President Enrique Peña Nieto signed the concession with an indefinite operational validity period, making BIVA the first securities exchange in four decades to compete against the Mexican Securities Exchange (*Bolsa Mexicana de Valores (BMV)*).

Fostering competitiveness

What is BIVA's business strategy?

BIVA expects to compete for 30% of the total income of Grupo Bolsa Mexicana de Valores, which operates BMV. To this effect it will seek to attract new players by offering them an alternative to raise capital through listing on this exchange, targeting SMEs and a part of the companies whose shares are currently listed on the BMV. BIVA will be able to operate with all the securities that are listed on the BMV today; new issuers will be able to choose to be listed in either or both, whilst having to choose where to have their main listing.

- **Use of new technologies:** The new securities exchange is focusing on a modern and tech-savvy set up. It will have the technological backing of Nasdaq through its exchange system known as Nasdaq X-Stream Trading, used by more than 70 markets worldwide. BIVA will also be using the trade surveillance platform known as Nasdaq-SMARTS, in order to ensure the transparency and integrity of the market. Both X-Stream Trading and NASDAQ-SMARTS are digital platforms specialized in surveillance automation, trading of goods, risk controls and data management.
- **Close attention and proximity with the issuers:** Executives from BIVA have mentioned that they will offer discounted listing rates compared with those charged today, though stressing that competition does not occur exclusively in listing prices since they only represent 10% of the total expenses associated with placements. The exchange has further asserted that its actual competitive strong point will be its client support by accompanying the companies before, during, and after the placement, in addition to creating customized reports for each issuer.

- **Reaching SMEs:** In Mexico there are around 17,000 mid-sized companies, 60% of which do not have any source of financing, according to the National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*). BIVA's goal is to initially reach at least 50 new companies, particularly by looking for and attracting mid-sized companies and appealing to this niche market, without ruling out the possibility of including larger firms. To achieve this objective, BIVA will place a cap on the value of capitalization below what the BMV requires, placing it between US\$500m – US\$800m. Spokespersons from BIVA have also highlighted the possibility of reaching 200 listed issuers in a period of three to five years. This will be analyzed alongside brokerage firms, which are the ones that have direct contact with the companies.

What are some benefits of having a second securities exchange?

The incursion of BIVA in the securities market is expected to provide the following benefits:

- reduction of transaction costs;
- greater liquidity;
- technological innovation;
- continuity in the operation of the market;
- execution alternatives;
- new and inclusive market indexes.

In addition to issuers who will have another option for their placements, other beneficiaries of this new exchange would include the large brokerage firms affiliated with the most important financial groups in Mexico, such as Banco Inbursa, Inversora Bursátil and Acciones y Valores Banamex. In the same way,

small independent brokerage firms that focus on select markets, such as Value and CICasa de Bolsa, should also reap some of the benefits emerging from this development. Such entities would benefit from a greater supply of products, trading volumes and assets under management, as well as lower operating costs.

What are some risks that BIVA faces?

BMV has recently expressed its concerns on the possible risks involving the addition of a new securities exchange. Some industry leaders believe that Mexico's capacity to expand the scope of its capital market is limited. The current and—for the moment—only financial actor in this sector has commented through its CEO, José-Oriol Bosch, that the inclusion of a new exchange in such a small market could dry out the limited liquidity it possesses. Other spokespersons from BMV have also asserted that the arrival of BIVA would only fragment the market, and increase costs for issuers listing in two exchanges instead of just one. Experts have also sustained that BIVA will eventually end up charging virtually the same fees as BMV, and the service and attention provided by BIVA be the added value.



Next Steps for BIVA

Preparations for BIVA's launch at the beginning of this year have been underway since the concession was granted in late August 2017; at the moment, technical and operational adjustments are being implemented, working alongside brokerage firms and the Mexican Association of Securities Exchange Intermediaries (*Asociación Mexicana de Intermediarios Bursátiles*). Financial authorities have been performing trial procedures of BIVA's operations since December 2017, and BIVA is expected to be fully operational and commencing its activities by March 2018.

Under the premise that an efficient financial market allows for a more efficient allocation of resources, BIVA aspires to be a viable option for SMEs with the capacity to grow, but that have not found an adequate source of financing. While there is little doubt that BIVA as a second securities exchange will provide enhanced competitiveness to the market on a technologically advanced platform, it remains to be seen if the concerns voiced by some of Mexico's financial experts in relation to the limitations of Mexico's capacity to expand the scope of its capital market materialize.

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