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## Mexican Securities Market: Structures for 2010 and Prospects for 2011

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It seems troubled waters in the Mexican securities market are starting to calm down. Last year was an important one for the recovery of the Mexican securities market, which closed with the aggregate amount of \$43,780 million financed through capital markets instruments and a return of 20.02% in the *Índice de Precios y Cotizaciones* (Mexican Stock Exchange main stock index commonly known as the "IPC").<sup>1</sup>

2010 was a good year for the Mexican securities market, not only in terms of amount, but also in terms of the type of new structures and securities issued on a market where many of the top players no longer appear on the scene.

### Capital Markets

In the capital markets arena, important initial public offerings (IPOs) were launched, including the \$2,354,097,440 IPO of Grupo Comercial Chedraui, S.A.B. de C.V. (CHDRAUI), one of Mexico's main retail stores better known as Chedraui, and the \$11,195,910,750 IPO of OHL México, S.A.B. de C.V. (OHLMEX), the Mexican arm of one of the main developers of infrastructure in Spain.<sup>2</sup>

2010 marked the year of the first stock IPO of the corporate form known as *sociedades anónimas promotoras de inversión bursátiles* (SAPIB), created and regulated by the Mexican Securities Law, published on December 30, 2005, which represent a figure between a private corporation and a publicly held corporation. This \$890,293,977.25<sup>3</sup> IPO was made by Proteak Uno, S.A.P.I.B. de C.V. (TEAK) on June 30 and represented the incursion of middle size companies into the Mexican Stock Exchange.

One of the main success of 2010 in terms of innovation was the launch of two new *títulos referenciados a acciones* (TRACs), commonly known as exchange traded

funds, that replicate the two new indices published by the Mexican Stock Exchange: the Inverse Daily Index of the Mexican Stock Exchange (*Índice Diario Inverso de Bolsa*) and the Double Daily Index of the Mexican Stock Exchange (*Índice Diario Doble de Bolsa*).

Such TRACs, named ANGELD 10 and DIABLOI 10 (as in angel and demon), double the daily income of the IPC (the ANELD 10) and provide the inverse income or loss of the IPC (the DIABLOI 10), allowing new investment strategies for institutional investors.

Finally, one instrument that left the Mexican Securities Market in 2010 with high expectations was the *certificado de capital de desarrollo* (CKD). 2010 witnessed nine placements of CKDs for an aggregate amount of \$21,709,294,592.

The new year brings high expectation for Mexico's capital markets. The appetite of the Mexican pension funds known as SIEFORES has grown and the regulatory changes made in 2010 will bring more flexibility and hopefully help the growth of the Mexican securities market. It is likely that 2011 will see more SAPIB IPOs not materialized in 2010; the first IPO of a Mexican REIT, known as *fideicomisos de infraestructura y bienes raíces* (FIBRAS); and more CKDs once the regulator issues the new rules they were pushing in 2010 in order to institutionalize the figures of the gatekeepers.

### Securitizations and Debt Markets

Many of the top players no longer appear in the securitization arena. During 2010, Mexico's top issuers of mortgage backed securities (MBS) were public institutions such as the FOVISSSTE<sup>4</sup> and the INFONAVIT<sup>5</sup>.

Last year hit hard on many mortgage non-bank banks (*sociedades financieras de objeto multiple*), commonly known as SOFOMS. Starting in 2010, Crédito y Casa, an important SOFOM, started its liquidation process, while

in the second quarter Metrofinanciera, one of Mexico's main originators of local and cross-border MBS, ended its bankruptcy process (*concurso mercantil*).

An important player that will be missed is Hipotecaria Su Casita, who is experiencing troubled times and whose restructure will be one of 2011's main topics in the securities market.

Without doubt, on 2011 the SHF<sup>6</sup> will play the main role in the recovery of MBS market while the new figure of the Master Servicer included on the securitization structures will hopefully help to avoid certain deficiencies experienced in the past.

In the debt markets arena, the amount of private debt issued in 2010 was of \$186,467 million. The commercial paper market (short term debt) was reduced by 48.8%, which can be explained due to the end of the partial guarantees that were granted by the Mexican development banks known as NAFIN<sup>7</sup> and BANCOMEXT<sup>8</sup>.

During 2010, many companies entered in payment negotiations with bondholders due to payment inability. Such was the case of Vitro, who has requested the protection of the bankruptcy laws in order to enter into a restructuring plan. It is anticipated that in the new year, such a restructuring will also be a main topic on the securities market.

The debt market is expected to continue to grow in 2011. Nevertheless, it is important to recognize the market risks, challenges to overcome and past mistakes in order to implement new financing structures.

### Conclusions

As always, the securities market is not exempt from risks. Due to the financial and commercial integrations Mexico has with the U.S. economy, the Mexican economy is in a fragile position which is dependent on the U.S. economic recovery.

2010 was an important year for the recovery of the Mexican securities market but several important players will face critical challenges in their financing and restructure processes in 2011.

Several new regulations are expected to be issued by the Mexican banking and securities authorities (*Comisión Nacional Bancaria y de Valores*), along with the Mexican pension funds authorities (*Comisión Nacional del Sistema de Ahorro del Retiro*). Such regulation intends to develop the Mexican securities market while certain mistakes from the past are addressed. The new year certainly will bring opportunities for further recovery and growth, in which the structure and implementation of creative legal and financial solutions will represent a distinct advantage for companies and their investors.

1 [www.bmv.com.mx](http://www.bmv.com.mx)

2 *Ibid.*

3 *Ibid.*

4 Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado

5 Instituto de Fondo de la Vivienda para los Trabajadores

6 Sociedad Hipotecaria Federal, S.N.C.

7 Nacional Financiera, S.N.C.

8 Banco Nacional de Comercio Exterior, S.N.C.

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