Argentina Strategy

November 15, 2017

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Strategy Note

Argentina: Gov't Sent the New Capital Markets Law to Congress, & Also the Tax Reform; Which are Our Main Takeaways?

On November 13, 2017, the government sent to the Congress the project for the new Capital Markets Law, now denominated Productive Financing Law. The most important aspects of the proposed bill are related to the creation (or give a clearer definition than in the previous Law) of investment instruments and the modification of certain part of the current Law, which we believe has the main goal of deepening & enhancing the development of the local financial system (including incentivizing long-term saving), and improving the environment under which the local firms operate. In addition to this, on the same day the government also sent the Tax Reform Proposal presented by the Minister of Treasury last October 31, including some modifications to the guidelines presented two weeks ago. Related to the later, the most important changes are: 1) the proposal to eliminate the 13.5% capital gains tax applicable to foreign investors; 2) the elimination of the originally proposed domestic taxes on wine & beer; and 3) the halt of a tax elimination process affecting imported consumer electronics. It is worth highlighting that after the proposed bills arrive at Congress, they will be subject to discussion in the Houses; and thus, could suffer modifications to their original guidelines when enacted.

- The following is a summary of the most important aspects included in the new Capital Markets Law:

  I. **Modification of the Article 20 from the Current Law:** Article 20 of the current Law authorizes the CNV (local SEC) to intervene in the board of directors of any locally-listed company by appointing an 'observer' with veto power regarding any resolution taken by the board. As CNV's directors could be chosen by the government, this was a risk to be taken into consideration by companies when planning to locally-list their stocks. The new Capital Markets Law intends to delete the aforementioned CNV´s attributions.

  II. **Definition of Legal Conditions for Closed-End Funds & Elimination of Double-Taxation:** Through the proposed Law, both Closed-End funds & Open-End funds are legally defined, currently both were defined on under the same framework. Related to this, Closed-End funds will pay no taxes on their investments made in Argentina, alike the current treatment received by Open-End funds. Thus, eliminating the double taxation issues (and the fund & individual levels) that currently forbids the development of this type of funds.

  III. **Indexed Funds (ETFs):** The proposed law includes the incorporation of funds indexed to financial indices or to a portfolio of other assets, as it is the case in developed financial markets. These new funds will operate under the scope of the new Open-End Investment Fund figure.

  IV. **Foreign Voting in Shareholders' Meetings:** Cross-border shareholders will be allowed to participate and vote in every shareholders' meeting of public companies through representatives appointed by them, without any other mandatory request.

  V. **Renewed Conditions for Encouraging Mortgage-Backed Securities:** Even though the mortgage-backed securities figure already exists, the new law intends to simplify the product origination, basically by removing the need of contractual permission given by the borrower. The aim of this is to deepen the housing credit market by increasing volume & decreasing financial costs, and ease the liquidity restrictions that banks will have to face in the upcoming years on the grounds of a growing credit penetration.

  VI. **Derivative Products:** The government aims to foster the use of derivative products with the goal of growing the financial market use to mitigate risk. The main proposal on this front is to allow contracts between individuals (forwards), and to eliminate the current bankruptcy shield from automatic contract termination. The gov't also highlights the necessity for permitting the compensation of the contract (close-out netting) and the automatic guarantees exercise without judiciary processes.

  VII. **Insurance Companies will be Able to Issue Inflation-Indexed Policies:** Under the proposed new policy characteristic, insurance companies would incur in fewer fixed costs related to the periodical recalculation of policies; thus, this should reduce policy cost for their clients, and also bring long-term visibility in for asset-liability matching.

  VIII. **Fostering Financing to SMEs:** Small & medium enterprises will be able to cash-in the credits they have in favor in advance, by allowing the securitization of their receivables; thus, a new product will be offered in the financial markets. This possibility should reduce SMEs' financing costs.

- Furthermore, and regarding the proposed tax reform, these are the most relevant changes versus the original guidelines presented by the Minister of Treasury last October 31:

  I. **Details on the Tax Reform Proposal Sent to Congress:** For a detailed description on the proposed Tax Reform, please read our report Argentina: Government Proposes a Tax Reform with Positive Implications for Local Companies and the Equity Market published on November 1, 2017.

  II. **Elimination of the Capital Gains Tax Applicable to Foreign Investors:** It should be highlighted that, alongside its submission, the Tax Reform proposes to eliminate the 13.5% capital gains tax applicable to foreign investors when they operate equities in the local financial market, if the funds are based on cooperative jurisdictions. It is worth noting that in this case, not only the acceptance in Congress will be key, but also its implementation by the local IRS.

  III. **Changes to the Proposed Domestic Tax on Unhealthy Beverages:** The original idea of the government was to make unhealthy beverages (wine, beer & non-alcoholic beverages with added sugar) pay higher taxes. However, on the updated proposal sent to the Congress: 1) the 10% proposed tax on wine gets eliminated; 2) domestic tax on beer is kept at the current 8%; and 3) though it is currently under negotiations, the increase in the domestic tax for beverages with added sugars will be raised from the current 4%-8% tax to 17%.

  IV. **Suspension of the Proposed Gradual Elimination of Domestic Taxes on Imported Consumer Electronics:** As part of the tax reform proposal presented at the end of October, domestic tax for imported consumer electronics products was going to be gradually reduced from the current 17% tax to 0%. However, under the proposal submitted to Congress, it will suffer no reduction.

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