

Mexico's financial markets have surged since 2010, recovering from the global financial crisis and benefiting from new capital instruments and rules. Among the most prominent instruments are Certificados de Capital de Desarrollo (CKDs), or trust securities, and the country's first real estate investment trust.

Additionally, modernization of Mexico's market operations has helped drive initial public equity offerings (IPOs) and debt issuance.

New Securities Make Mark

The Bolsa Mexicana de Valores, Mexico's stock and securities market, introduced CKDs in August 2009. These securities fund the development of specific existing or future projects, often some type of construction, approved by the issuing trust's technical committee.

In the first 20 months after approval of the instrument, there were 15 offerings, raising \$3.2 billion, or 38.4 billion pesos (*Chart 1*). Fifty-three percent of the offerings funded infrastructure, 25 percent real estate and 22 percent businesses (mostly medium sized). The CKD's structure allows investment in either an individual firm or multiple firms, so even medium-sized companies that lack the resources for a public offering can obtain funding.

A CKD's value is tied to project success, with returns derived from dividends or sales of shares in underlying trust assets. Payments to CKD holders come from income earned by the project or business, including the amortization of principal and interest, dividends or sale of the project or firm. Under revised Mexican regulations aimed at boosting sources of capital for long-term construction and development, pension funds may invest in CKDs. Overall, pensions have provided approximately 90 percent of CKD funding. Ten additional CKD issuances worth \$1.4 billion, or 16.7 billion pesos, are in the pipeline this year.

Real Estate Investment Trusts Arrive

Mexico's first real estate investment trust (or Fibra, the Spanish acronym for Fi-

decomiso de Infraestructura y Bienes Raíces) came to market in March. The initial listing, Fibra Uno, raised \$302 million (3.62 billion pesos). Fibra Uno consists of 16 properties, including malls, offices and industrial sites. There were 883 subscribers, with Mexican citizens buying 77 percent of the offering.

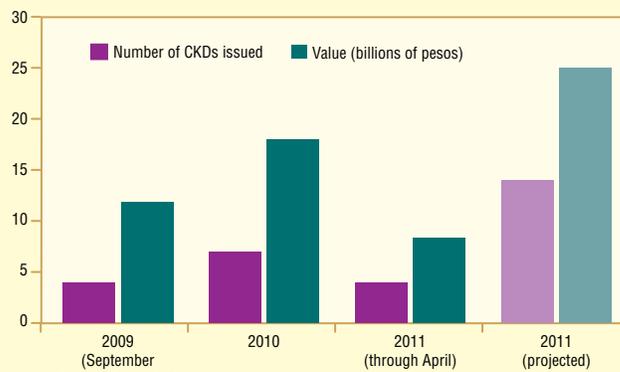
Authorities began making the necessary legal and fiscal changes to permit the formation of Fibras in 2004. To qualify as a Fibra, at least 95 percent of the returns must be distributed to investors, and a minimum of 70 percent of holdings must be in real estate.¹ Perhaps the most important regulatory change was put into place at the end of 2009 when new rules liberalized the permissible investment mix for pension and insurance funds.²

Bolsa Modernization Bears Fruit

In addition to the new instruments and record capital inflows for securities, Mexican markets have been bolstered by exchange modernization. Under rules implemented in August 2010, brokerages will have multiple access points to the electronic trading system instead of just one. Previously, orders were executed one at a time according to size. The new system is expected to increase efficiency and liquidity, while generating more orders and greater investment.

The modernization seems to be paying dividends. Debt issuance through Mexico's stock market reached unprecedented levels in 2010, following two years of relative inaction. According to the Bolsa, financing totaling \$3.5 billion (43.8 billion pesos) was raised during 2010. The trend continued this year, with debt issuance growing 40 percent in April on a year-over-year basis.

Chart 1
New Capital Instrument, the CKD, Takes Off



SOURCE: Bolsa Mexicana de Valores.

The debt market has proven a viable source of funding for local firms of all sizes. Bolsa modernization and new rules allowing pension funds to directly invest in the stocks of Mexican companies helped ignite a wave of IPOs. After two years with no new listings, six companies went public in 2010 and another 11 are expected to do so this year.

Although Mexico's capital markets remain small and relatively vulnerable, recent developments herald a deeper and more vibrant role for finance in the country's economic development.

—Edward C. Skelton

Notes

¹ In the U.S., real estate investment trusts (REITs) must pay dividends totaling at least 90 percent of the REIT's taxable income and must invest a minimum of 75 percent of their holdings in real estate. Fundamentally, there is no difference in structure across the two countries.

² In Mexico, pension fund companies are the largest institutional investors, with 42.2 million accounts and 1.6 trillion pesos in assets under management as of May 31, 2011.