

Panama, June 1, 2006

**Mr. Paul Dudek, Chief**  
Office of International Corporate Finance  
Mailstop 3628  
**Securities & Exchange Commission**  
100 F Street N.W.  
Washington DC 20549

**Re: Application for Designation of the Panama Stock Exchange as a “Designated Offshore Securities Market”. –**

Dear Mr. Dudek:

As Chief Executive Officer of the Bolsa de Valores de Panama (hereinafter “BVP or the Exchange”), I hereby submit an application on behalf of the BVP for recognition as a Designated Offshore Securities Market or Exchange. This designation is sought within the meaning of Rule 902(b) of Regulation S (“Regulation S”), promulgated under the Securities Act of 1933, as amended (the “Securities Act”). The participants of the BVP seek the safe harbor under Rule 904 of Regulation S for securities traded or offered “in or through the facilities” of the BVP. Specifically, The BVP seeks a determination as a non-U.S. securities exchange or market designated by the Commission based upon its consideration of, among other things, the attributes specified in Rule 902 (b) (2).

Rule 902(b)(2) states:

...

*Any foreign securities exchange or non-exchange market designated by the Commission. Attributes to be considered in determining whether to designate an offshore securities market, among others, include:*

- (i) Organization under foreign law;*
- (ii) Association with a generally recognized community of brokers, dealers, banks, or other professional intermediaries with an established operating history;*
- (iii) Oversight by a governmental or self-regulatory body;*
- (iv) Oversight standards set by an existing body of law;*
- (iv) Reporting of securities transactions on a regular basis to a governmental or self-regulatory body;*

- (v) *A system for exchange of price quotations through common communications media; and*
- (vi) *An organized clearance and settlement system.*

...

## **History and structure of the BVP**

The BVP was created in 1989 and began operations on June 26, 1990 as a stock exchange. It was authorized by Resolution No. 349 dated March 30, 1990, issued by the *Comisión Nacional de Valores*; (hereinafter the “CNV”) to operate as a stock exchange.

It is worthy to clarify that when the BVP was authorized to operate as a stock exchange and began operations in 1990, the laws which regulated the securities market in Panama were different than the one which rules nowadays. It was the Decree 247 of July 1970.

Moreover, the former CNV was not an autonomous body as it is today; it was a Department under the control and supervision of the Minister of Commerce.

Panama’s current securities law is known as Decree Law No. 1 of July 8 of 1999 “*By means of which the Comisión Nacional de Valores is created and the securities market is created in the Republic of Panama.*” ( hereinafter “Decree Law No. 1”).

The CNV is the sole securities market regulator in Panama. The CNV shall act with independence in the exercise of its function, but it is subject to the control of the General Comptroller’s Office of the Republic pursuant to the rules established in the Panamanian Political Constitution and the law. The CNV is an independent regulatory body where the Ministry of Economic and Finance has limited supervisory influence. Three Commissioners are appointed to a five year term by the Executive Power<sup>1</sup> but can only be removed by the Supreme Court on counts of gross negligence or violations of the law.

The Decree Law No. 1 is an extensive piece of legislation that gathers regulation similar to that in the 1933, 1934, 1940 U.S. Securities Acts (primary market, secondary market), as well as rules concerning the structure of clearing and settlement regulation similar to those in the Uniform Commercial Code of the U.S. Decree Law No. 1 also contains tax incentives to strengthen the securities market promoting public companies as well as concentration of transactions through transparent, organized and regulated markets.

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<sup>1</sup> Executive Power: Executive branch of the government. Commissioners are non – political appointees made by the President

The Decree Law also contains rules which prohibit fraudulent or deceitful acts such as inside trading and market manipulation. In this sense, as per example, the law expressly prohibits:

1. to every person to incur, directly or indirectly, in fraudulent acts or schemes or, knowingly or with intervening gross fault, to make a false or misleading declaration on an important fact or omits to divulge a material fact which was necessary to divulge so the statements made were therein were not misleading or deceitful in the light of the circumstance under which they were made.
2. to every person who becomes aware of facts of importance which are of public character and which have been obtained through a privileged relationship, to use, knowingly, said information to unjustly take advantage of another person in the purchase or sale of registered securities.

In addition, the undue use of privileged information is also considered a criminal act. Therefore, it is sanctioned with prison time. Kindly note what the Panamanian Penal Code establishes in this subject matter:

*“Article 393E: Who unduly use or divulge confidential information, obtained through a privileged relationship, related with securities registered before the National Securities Commission, or to securities which are negotiated in a organized market, causing damages or obtaining a benefit from himself or from a third party, will be sanctioned with prison from 3 to 4 years.*

*For the purposes of this article, it is deemed as confidential information such information that, by its nature, may affect the prices of securities and which has not been publicly disclosed yet.”*

The BVP is a Panamanian corporation owned by private investors. Its stocks are publicly traded in the BVP. As a public company, there are no restrictions about the ownership of the BVP shares except that members must own at least 2,500 shares each. As of August 20, 2005 there were 60 (sixty) shareholders; none holds five percent (5%) or more of BVP; forty three percent (43%) of its shares were owned by persons that hold a seat in the BVP or are affiliated to a seat holder. Management owns less than 1% of stock and has no stock options.

As an SRO the BVP is subject to regulatory standards and rules set by the Decree Law No. 1 and its regulation and enforced by the CNV. In general, these rules pertain to the operating of the exchange, supervision of member broker dealers, listing rules and procedures which shall be comply by its members. Such rules aim to:

1. Protect the interest of the investing public;

2. Guarantee a fair and representative participation of its members within the administration bodies;
3. Assure that its members, directors, officers and employees comply with their internal rules and to establish disciplinary procedures and the corresponding penalties.
4. Include provisions that guarantee the confidentiality of the operations carried out therein.

Specific rules and the role of the CNV vis a vis the Exchange will be discussed below.

Besides its obligations as and SRO, the BVP is a public company duly registered in the CNV and listed on the Exchange itself. As such must comply with standard disclosure rules such as providing investors and the CNV with complete and timely corporate and financial information on a quarterly basis, disclose and disseminate relevant information and material facts as well comply with proxy statement rules, as any other public company in Panama.

The BVP issues and annual report in Spanish. It also has a Spanish and English version of the report on its web page; [www.panabolsa.com](http://www.panabolsa.com) (Once in the Web page go to “About Us” and then on to “Annual report” or to the Quarterly reports, as you wish).

The Board of Directors (the “BOD”) of the BVP is composed of nine members, eight of whom are elected for a two year period at the annual stockholders meeting. One member is always designated by the Banco Nacional de Panama, the fiscal agent and central banking entity of the Government of Panama. The elections of new members are staggered so that four members are elected each year to serve on the BOD. This system permits the continuation of corporate policies adopted by the Board over time. Alternate Directors are elected in the same manner as the principal directors.

The BVP operates through different committees that oversee specific areas of its operations. The day to day operations are handled by a management team headed by the Executive Vice President and General Manager (“EVP/GM”). He/she has direct supervision of the following staff: Deputy General Manager; Development Manager; Development and Administrative Manager; and a Compliance Officer. The EVP/GM also sits on most of the standing committees listed below:

- **The Executive Committee:** The main officers of the BVP are the President, the Vice President, the Secretary and the Treasurer, elected from among the serving members of the BOD. These officers also serve as the Executive Committee of the BVP. The responsibilities of the Executive Committee are to counsel, be informed of and decide matters that the General Manager submits for their consideration. It reviews and submits to the BOD administrative norms, policies

and criteria for its approval, such as the Annual budget, Executive Compensation Policy, Dividend Policy and Management Objectives. It also establishes the ethical and financial parameters for the proper operations of the BVP, as these may have been delegated to this Committee by the BOD.

- **The Technical Committee:** This committee is composed of five individuals whom are member of the BOD and the EVP/GM. It is responsible for establishing standards, verifying submissions by the issuers that are listed in the BVP, establishing dissemination standards for information, presenting technical reports, and reviewing financial statements and other documents submitted to the BVP by issuers and their agents.

The main task of the Technical Committee is to review documentation of new listings specially the Offering Memorandums, Corporate Filings and Financial Information. These reviews are performed in parallel to the filing that must be made at the CNV and very often coordinated with the CNV to avoid redundancy.

The standard for the Technical Committee is similar to the standard of the securities law; the review is deemed to promote full disclosure and improve the quantity and quality of the information, but neither the Committee nor the BVP (nor the CNV) issues and opinion on the outlook or the perspective of the business. As such the Committee issues deficiency letters for the amendment of selling prospectus as well as for the clarification of text or documentation.

The BVP stock index is an aggregate of a selected number of shares trading in the market. As any other index in the world, some shares may in a given moment of time lose their value as a proxy for the market and are replaced by other. An important task the Technical Committee is to review twice a year the performance of the BVP Stock Index to recommend the inclusion or removal of new shares according to the criteria set forth by the Index. The committee may also recommend changes to the methodology of the Index itself; any such changes must be approved by the Board of Directors.

- **Internal Rules and Transaction Committee.** This committee recommends to the BOD the internal rules of the stock exchange operated by the BVP. It analyzes legal issues that impact the operations of the BVP. The committee oversees the trading part of the Exchange and the rules and policies related to its functioning. Most rules are trading rules and range from the setting of the trading hours to complex rules related to, for example, cross transactions or price discovery rules. From time to time the Committee is called upon to asses and recommends changes on new trading systems, new technologies or simply changes in the way the electronic trading system allocate transactions. All of the changes or recommendations made by the Committee must be approved by the Board.

When the Committee proposes changes to the existing trading rules it may draft new rules or amend existing ones. Nonetheless new rules or amendments as any other change in the rules governing the Exchange must be approved by the Board of Directors and have a no-objection ruling from the National Securities Commission (CNV) which may recommend changes to the proposed rules.

- **Exchange Oversight Committee:** This committee is responsible for resolving disciplinary cases that the BVP, its officers or directors, may deem worthy of action. They investigate and evaluate the facts to determine potential sanctions and actions in each disciplinary matter. This committee has total independence and authority to establish its own operating procedures and norms in order to accomplish its oversight duties. However, the Board oversees its function.

Employees of the BVP, as well as its members, members' directors, officers and employees, are subject to this committee. In this sense, if the BVP has founded reasons to believe that a wrongdoing has been committed, this committee shall be in charged of investigate such.

If the committee judges an unlawful activity has been perpetrated, the committee shall impose a penalization. In accordance with the importance of such fault, the committee may recommend to the Board:

1. To expel a member;
2. To suspend or restrict the rights of a member or of a director, officer or employee of the latter;
3. To prohibit that any person may have any association with the BVP;
4. To hire an employee, director or officer of the BVP; or
5. To impose other penalty contemplated in the BVP's internal rules.

This committee does not have either criminal or civil jurisdiction. If a criminal or civil crime had been committed, the BVP has the legal obligation to notify the Panamanian authorities.

- **Audit Committee:** This committee is charged with fulfilling the audit responsibilities of the BVP as a private, corporate issuer that it is publicly traded in the BVP. It reviews internal controls, financial reporting standards of the corporation, corporate governance issues and codes of conduct for its officers and staff.

## Main Indicators of the Bolsa de Valores de Panama

The BVP has operated to strengthen its operations within the framework of the law as an SRO and to develop the capital market in Panama. There are not other exchanges in Panama or any formal over-the-counter market or any form of regulated market yet. The securities legislation that applies to the BVP will apply to any other market.

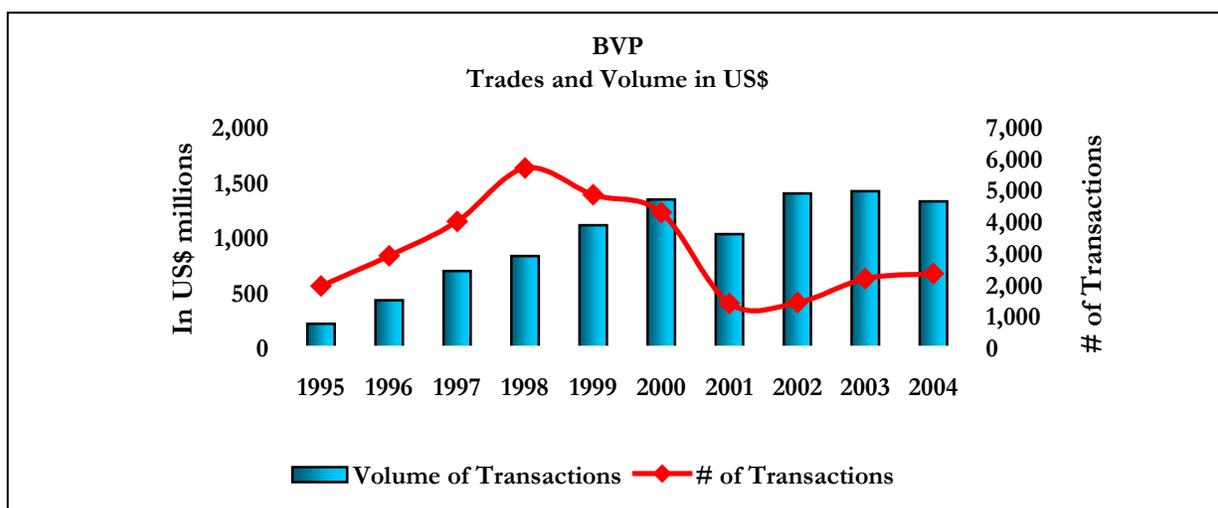
The following table details the main indicators for the BVP since the year 2000 up through June 2005. Although the number of issues has been reduced, the market capitalization of the securities traded through the BVP has grown dramatically since 2003. In part, this is due to the rebound from the economic slowdown that occurred in the years 2000-2002. The number of issuers listed dropped due to the implementation of the 1999 Securities Law which eliminated voluntary listings and thus culled the number marginal and “inactive“ issuers, leaving only those that traded and had a valid market reason for listing the securities with the BVP.

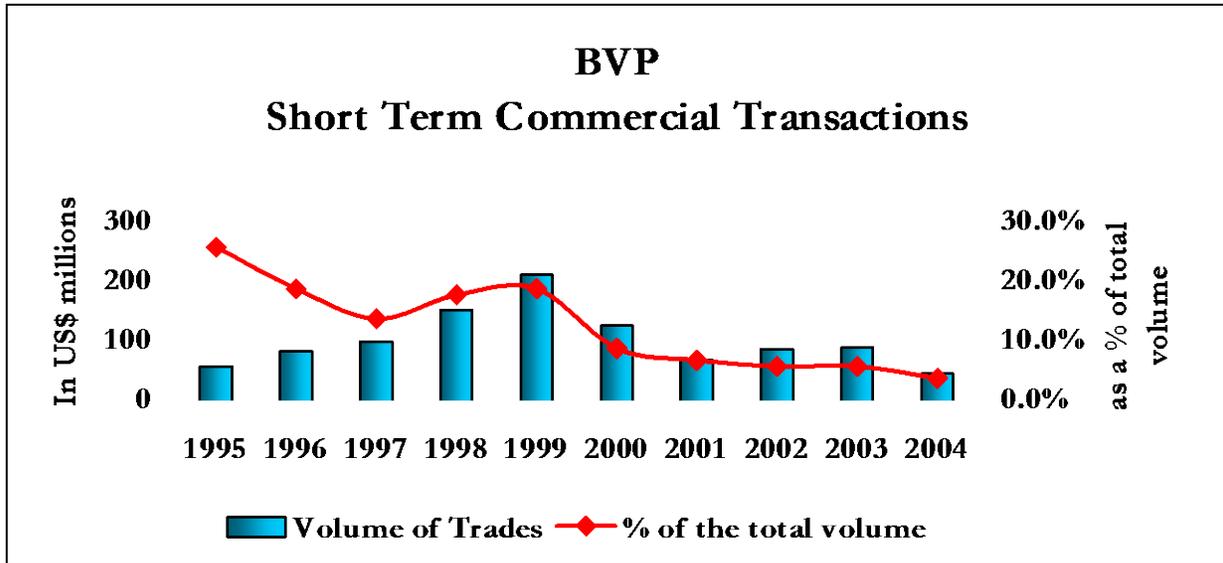
*Main Indicators of the Bolsa de Valores de Panama, 2000 - June 2005*

	2000	2001	2002	2003	2004	2005 (June)
Number of listed Companies	153	124	117	95	80	83
Market capitalization (in US\$ millions)	4,186	4,036	4,558	4,883	5,878	6,630
Trading Volume (in US\$ millions)	1,361	1,047	1,414	1,434	1,343	971
Turnover (%)	4	2	2	1	1	1
Average Trading Volume	5.6	4.2	5.8	5.8	5.4	8.0
<b>Capital Raised Through (in US\$ millions)</b>	<b>100</b>	<b>238</b>	<b>661</b>	<b>166</b>	<b>509</b>	<b>415</b>
Debt	100	138	336	166	329	415
Issuance of shares	0	100	325.28	0	180.0	0
Number of Broker Dealers	18	18	18	13	13	15

Source: BVP

The following graph summarizes the level of all transactions of the BVP from 1995 through 2004. Relative to other stock exchanges, the BVP is small and limited in



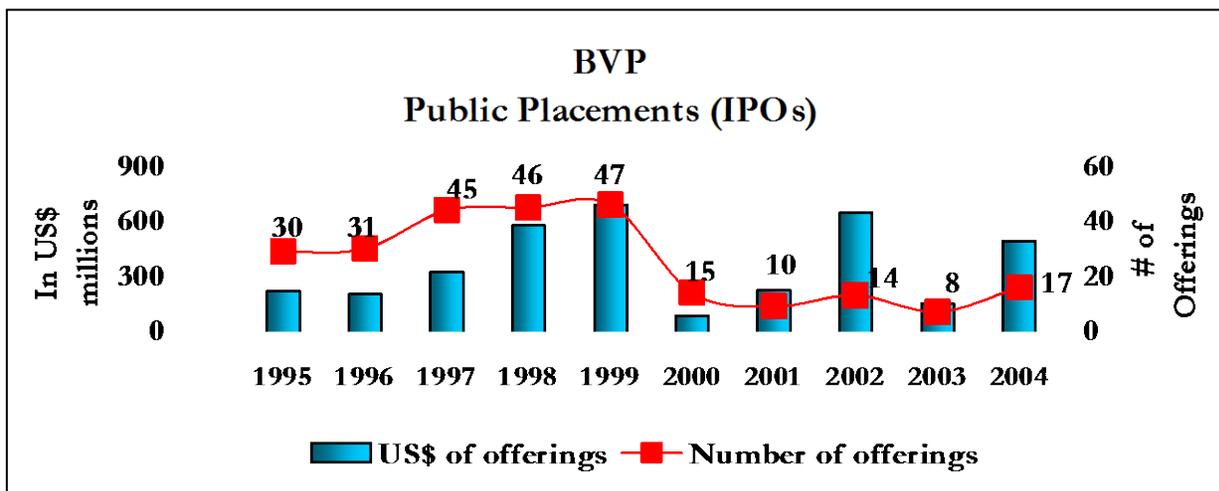


it's offerings. There are a total of 83 issuers that trade either stocks or debt instruments at the BVP.

There are 24 issuers that offer equity and 59 issuers that offer debt securities through the BVP. There are 10 closed- end investment funds that trade in the BVP.

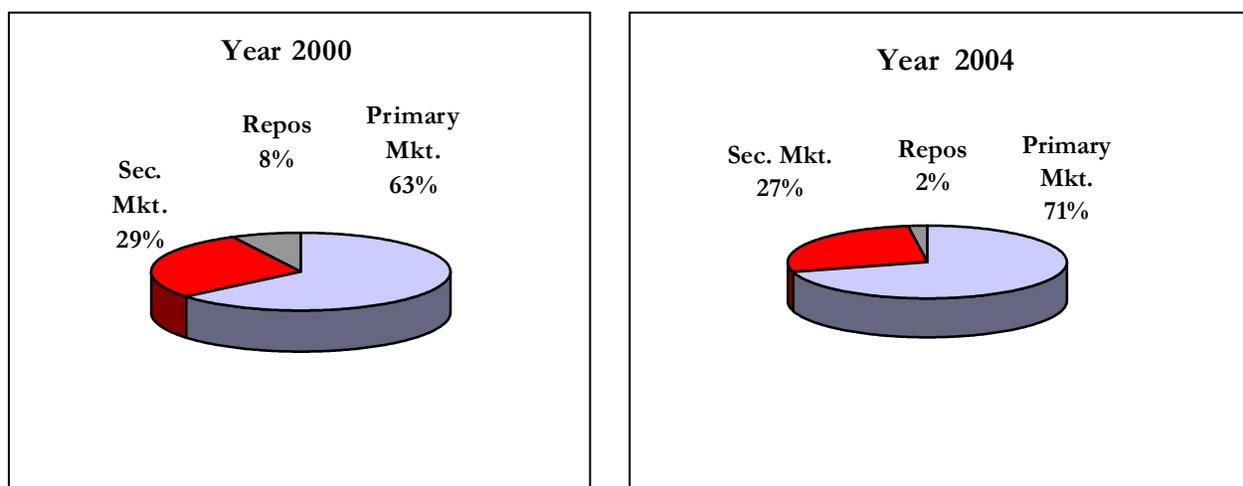
During calendar year 2004 there were approximately 2,500 transactions that traded through the BVP. On a daily basis, the BVP registers has between ten (10) and fifteen (15) transactions. The high point of trading activity measured by the number of transactions was in 1998 when 5,760 trades were reported through the BVP. As is detailed below by other graphs, this is an evolving market that has been called by some experts a "frontier market", given its volume and number of transactions.

The following graph indicates the number of public placements that were transacted through the BVP from 1995 up to and including 2004. The vast majority of these transactions were debt issues.



Traditionally, the sale of short term commercial paper has been an important transaction for the BVP due to the needs of Panamanian banks. Most of the transactions in short term papers were repos structured to offer banks liquidity for their treasury operations. However, in recent years the volume of these transactions has decreased dramatically. It is anticipated that the volume of these transactions will stabilize at the current level for the next few years. Since 1999, the market for short and medium term government securities have grown in importance for the BVP. Whereas in 2000 the government issues accounted for only 15% of the income of the BVP, by 2004 the income attributable to these securities rose to 42%.

The following pie-chart contrasts the reduction in the repos traded through the BVP.



Regarding terminology in this section “**Main Indicators**” the term “Sec. Mkt” means “secondary market” and pertains to transactions among holder of securities other than the issuer and subsequent to the original issuance. “Primary Mkt”, or primary market issues also known as “primary issues” are first time sales of securities to the market by the issuers or underwriters. The term “turnover” refers to the volume of shares traded in a year as percentage of total volume listed. Average daily volume means the dollar amount of the securities traded in the year divided by the number of trading days.

It shall be clarified that in Panama does not operate other exchange and there is no other organized market beside the registered exchange yet. An organized OTC market has not been duly implemented in Panama.

### **Good Conduct and Corporate Governance**

The BVP has in place Good Conduct rules for its staff and BOD. Also, each one of the various brokerage houses has adopted Good Conduct rules that address ethical and other rules to assure that the market is not affected by improper conduct. The BVP has also adopted Good Governance rules for the benefit of its own stockholders and promotes

the use of good corporate governance rules for all issuers, since this matter is not regulated by law in Panama.

Good conduct rules are really a code of conduct or ethical code that all broker dealers (including BVP members) and are required to have and abide by law (Article 39 of the Decree Law No. 1). The code can be developed by each broker dealer taking as a guideline CNV rulings or from best practices of other jurisdictions or they may adhere or abide by the code developed and enforced by an SRO, like the code of the BVP.

The BVP code addresses the issues of fair dealing, conflicts of interest, equal access to transactions and research, price disclosure and rules to separate trades by the house and for clients. There are penalties for breaking the Code that can be imposed by the BVP and by the CNV; if the breaking of the Code implies violation of the law the sanctions could be more severe.

The BVP has also adopted Good Governance rules for the benefit of its own stockholders and promotes the use of good corporate governance rules for all issuers

Nowadays, Good Governance rules are voluntary. Nonetheless the CNV has an extensive guideline in such regard and issuers are required by the BVP and the CNV to report their practices under the “comply or explain” principle. A scorecard of issuers’ practices must be filed annually with the mandatory yearly reports and changes to the practice are to be disclosed in the quarterly reports to the Exchange and the CNV.

It is relevant in this section to provide an overview of the regulatory structure and the relation of the CNV with the BVP. As it has been previously stated, the CNV is the sole regulator of the securities market. The Decree Law No. 1 invests the Commission with wide rule making powers within the limits of the law. These rules are adopted by the CNV after an open consultation process and in certain cases after a public hearing. The CNV may amend or repeal its own rules by the same procedure.

In general terms, the CNV may override the authority of the BVP Board on matters regarding the rules and regulations of the Exchange if it deems that they are discriminatory to members firms or contrary to the interest of the investing public. Furthermore, the CNV may impose punitive sanctions to exchange members if it finds they are in violation of the law and its regulations. These punitive sanctions are irrespective of those imposed by the Exchange itself and may very well in addition to the first.

The punitive sanctions may go from fines to suspension and expulsion of members in the case of the BVP; in the case of the CNV it may go from fines to suspension to cancellation of the broker dealer license either to the brokerage house or to their employees.

The CNV has authority to inspect and monitor the operations of the Exchange any time and does not need a specific reason to do it. Since 2004, the CNV has made one detailed overall inspection to the BVP, several specific requests of information and two short terms check-up visits. None of the inspections or visits has generated sanctions or penalties. The 2004 detailed overall inspection generated a number of recommendations and suggestions that the Exchange adopted fully.

Since members of the exchange are CNV licensed broker-dealers, their operations may be inspected and supervised by the CNV as well. It is not unusual that BVP members firms are inspected by both the CNV and the BVP.

The National Securities Commission is an administrative agency and except for the authority to fine, suspend and revoke licenses and authorizations, it has limited authority concerning civil and criminal cases. The CNV has investigative powers and can be vested by judicial system to act as a part on a criminal or civil investigation but, as a rule, cases have to be referred to the Attorney General or the courts. The BVP could be part in civil cases (as plaintiff) but it also must refer cases to the judicial system. When there are violations of the securities law or evidence of violation, the BVP must inform the CNV. Criminal cases go to the Attorney General office that turns them to specialized prosecutors.

## **Operation of the BVP**

There are currently 15 brokerage houses acting as market participants in the BVP and one new membership is pending approval by the BVP. The BVP handles equity and debt securities that have been previously dematerialized under the custody of *Central Latinoamericana de Valores, S.A.* (also known as “LatinClear”). Government debt instruments are also dematerialized and deposited with LatinClear for trading purposes.

With the exception of government debt instruments all exchange listed securities, must be registered with the CNV prior to trading on the BVP. The registration of securities is governed by Title V and Title VI of the Decree Law No. 1. The following securities must also be registered before the CNV:

1. The securities which are object of a public offering. It is not considered a “public offering” if the offer is made to no more than 25 (twenty five) persons and conclude with the selling of the offered securities to no more than ten (10) person within a one (1) year period. For purpose of the Decree Law No. 1, an offer made to person domiciled within the Republic of Panama shall be considered an offering made in the Republic of Panama regardless that it had been made from the Republic of Panama or abroad.

2. The stocks of issuers domiciled in the Republic of Panama that, for the last fiscal year, have fifty or more stockholders domiciled in the Republic of Panama who are beneficial owners of not less than ten percent (10%) of the paid capital of such issuer. This calculation does not include insiders of the issuer, its directors and officers.

The registration is similar to filing a registration statement with the SEC under the 1933 Act; issuers must initially file extensive and detailed financial and corporate information and submit quarterly reports of similar data and report material changes on an ongoing basis.

As in the U.S. securities regulation the central documentary piece for public issues is the Sale Prospectus, (also known as selling Memorandum or placing Memorandum) which is the formal written offer to sell securities that sets forth the plan of the proposed offering and furnish investors with financial and corporate information as well as with the terms and conditions of the offering. Additionally, prospective issuers must submit to the CNV information regarding its directors, officers, key executives, financial statements (for the last two (2) fiscal periods), corporate documents, certificate of good standing of the company, among other information.

Prospectuses are reviewed extensively by the CNV and the BVP and recommendations for change and clarification are made to issuers or its underwriters when necessary. A normal listing in the CNV including comments from the BVP will take around 45 days and as much as 60 days depending on the complexities of the issue and the quickness of response from the issuers. Prospectus shall be delivered to prospective investors at the of the offering and prior to any sales.

If the issuer does comply with all the legal requirements set forth by the Decree Law No. 1 and its regulation, then the CNV will issue a Resolution by means of which the securities are registered in the CNV and, hence, formally authorized to be publicly offered within the Republic of Panama.

For those securities that are to be listed in the Exchange the procedure and requirements are similar in the CNV and BVP but prior to listing, the latter issues a letter to the CNV stating that the issuer as applied for listing in the BVP and awaits for the CNV filing to become effective before trading the issue on the Exchange.

Treatment and requirements for equity and debt securities is fairly similar except that particular debt issues may have specific characteristics (sinking fund, indentures, trusts) that may require more documentation. Trading requirements are similar for both debt and equities but price formation and trading information to the market and traders may reflect prices in units or fractions for stocks and in yields ( %) for debt securities.

Although the administrative offices of the BVP are open from 8:00 am until 5:00 pm Monday through Friday, the stock exchange *per se* operates for trades only from 10:00 am to 3:00 pm during these days, except for holidays. When there are primary issues offered for sale, they are posted from 9:30 am until 10:00 am, but no trades are allowed during this time. All transactions are executed through the electronic trading system called **SITREL** (the acronym in Spanish for “Sistema Transaccional Electrónico” or electronic transaction system, hereinafter “**SITREL**”) designed by a Chilean software company, formerly a joint venture between the Chilean Electronic Exchange and NASDAQ that developed the software for the Chilean Electronic Exchange. Once the electronic system starts at 10:00 am, **SITREL** automatically matches the offers and bids listed for each security posted by the various brokerage houses. Each security is given a specific identifier (either a 15 digits or identifier) that serves to define with precision each security bid/offer posted by a brokerage house for purchase or sale.

The BVP generates its income almost exclusively from commissions and fees; on a much lesser extent from the sale of market information. The BVP fee structure for issuers has two components; a basic registration or listing fee by issuer (not by securities) and a trading fee.

The listing or registration fee consists of a one-time payment and a yearly fee. The registration fee for equity issuers is \$1,000 and the yearly fee is \$1,000. For debt issuers the fee is \$250 plus \$50 for each series of debt listed. Debt securities pay a \$100 annual fee plus \$25 for each outstanding series as long as the debt instruments are listed. In fact, the listing fees are paid every time the issuer brings new debt issues to the market.

In addition to a basic listing fee, issues that are sold to the market for the first time (Primary Market Issues) will pay trading fees in an amount related to its volume and on a declining scale that goes from 1/8 to 1/32 of 1%. All other issues or securities traded in the secondary market will pay a fee of 1/16 of 1%. All trading fees are paid by the Exchange members executing the transactions.

At the inception of the Exchange and in order to assure an active participation of all members in the market, a minimum annual fee of \$9,000 per member was established. Such fee is credited throughout the year against trading fees. Thus, for example, if a brokerage house generates only US\$8,000 in commissions, it would pay an additional US\$1,000 to meet its minimum fee; if it generates US \$ 12,000 it is above the minimum and need not make other payment. Today all members’ trade well over the \$9,000 hurdle and the BVP has considered reviewing the benchmark or removing it all together.

It is important to note that the electronic system used by the BVP has an automatic 10% change in price alert. Every time a security shows a price change of 10% up or down, the trading system issues an alert message. BVP management will examine the trading data and may order an investigation to determine the causes of the fluctuation.

Many times price fluctuations are explained by extraordinary press releases of issuers or the disclosure of relevant facts to the market.

Excessive price fluctuations may trigger a trading halt. The Rules and regulations of the Exchange empower the CEO of the BVP to halt trading any time. The reasons for halting trades are focused on preventing endangering the interest of the market and the investing public. Issuers or members may request a trading halt if it would protect the market, for example usually before releasing sensitive information to the market, but the decision is at the sole discretion of the CEO.

The CNV has also authority to request the BVP to halt trading of determined securities on very specific instances; upon the filing with the CNV of a tender offer for exchange - listed securities and upon the filing of corporate restructuring plan that affect listed securities such as the exchange or redemption of listed securities as part of the reorganization plan.

Most trading halts are brief. The CNV- ordered trading halts could be appealed to the CNV itself. The trading halt decisions of the Exchange CEO may be appealed to the Board of Directors of the Exchange. All the same, price ranges for daily price movements and ranges for triggering price alerts are set solely by the Exchange.

There are three types of orders that can be posted on the electronic trading system:

1. Normal Orders: These are orders that are placed in the system for execution within 15 minutes from posting. If they are not executed, the system will automatically eliminate the order.
2. Firm Orders: These are orders that are firmly in place (unless accepted, modified or withdrawn by the posting broker) during the whole trading session. At the end of the trading session, the order is automatically eliminated if it has not closed.
3. Open Orders or “good until canceled”: These are orders that remain open for the period specified by the broker until they are executed or they are withdrawn by the broker. However, there is a thirty (30) day limit for these open orders, at which time the system automatically eliminates the order.

Orders must include the bid or offer price, the securities identifier, the number of securities to be traded (if shares) or the nominal value (in other cases), the price, the liquidation terms and the form of payment. A broker can enter the transaction on a “all or nothing” basis or permit the system to execute a lesser volume and leave the remainder for later execution. The orders that are “all or nothing” must be traded in their entirety or not at all. If a lesser number is selected by the broker, then the volume of the order that is

not filled will keep its place in the queue and will be executed if there are additional matching counter-orders. Brokers may enter “all or nothing” conditioners for trades up to 10,000 shares in the electronic trading system. Debt securities may also be traded on an “all or nothing” basis provided that each transaction order does not exceed US\$1 million.

In cases where there are several offers/bids that meet the same criteria, the system will execute the first one entered in *SITREL* (FIFO). The system classifies the highest bid price and the lowest offer price for matching purposes. Orders may be modified by the submitting broker at any time. However, any modification causes the system to consider the order change as a new order for queuing purposes. In order to avoid price manipulation, cross orders<sup>2</sup> must be in place for at least 20 minutes before the end of the session for price fixing purposes; open orders have no time limit before the closing of the session.

The electronic trading system operates half blind. This means that the system will identify the order but will not identify the broker that has initiated the order. Once the transaction has executed, matching a bid and an offer, the system identifies, on line, all parties to the concluded transaction. Each transaction logged on the electronic trading system will be registered in the BVP’s central database and in a duplicate, mirror-image specialized database hosted off-site. This permits regulators and the BVP to undertake detailed audits of transactions, if needed.

The electronic trading system of the Exchange is redundant, that is an identical hardware and software configuration backup is set in a remote location; should the primary system fail, the BVP will be on line within seconds from the remote location. In the unlikely event that the electronic trading system should fail, the BVP has adopted alternate, live trading procedures to be used in the floor of the BVP until the electronic system is once again on line and operational. The possibility of a failure by the electronic trading system is very small, but none the less, the procedures for live trading have been adopted and are known to all members of the BVP.

For equity transactions, the brokerage houses may increase their bids by US\$ 0.10 (ten cents) either up or down. For debt transactions and for funds, the pricing system allows up to six decimal places. Transactions will close when there are:

- Different bidding brokerage houses.
- Similar securities.
- Similar liquidation dates. T+3 or others that may be established by the BVP.
- A buying price that is better than or equal to the sale price.
- Equal payment treatment for clearing purposes under LatinClear.

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<sup>2</sup> Cross Order: Securities transactions in which the same broker act as an agent in both sides of the trade.

The primary placement of government debt securities has become an important activity for the BVP. New government debt instruments are sold through auctions. The auction schedule is published on a yearly basis, in order to advise interested and permit the orderly development of the primary governmental debt market. Interested parties may present competitive and noncompetitive bids at the auction. The auction is scheduled to receive from 9 am to 10 am on the date established for the auction. Bidders are required to present a sealed bid within that one hour timeframe. Bids presented outside that timeframe are not accepted. The sealed envelopes with the bids are then opened at 10 am in the order they were received. The results of the bids are posted on four screens: a general screen with all the bids listed; a private bidder screen for competitive bids; a private non-competitive bid, and a screen that lists the bids by governmental entities (noncompetitive). The issuer then decides the maximum discount level at which it will accept bids and sets a cutoff point for the competitive bids and allocates the issue in the following manner: first to the competitive bids that meet the cutoff, then to the private non competitive bids and finally to the governmental entities that bid. If the competitive bids are similar and exceed the amount of the issue, then the issued securities are prorated among the successful bidders.

There are currently no mechanisms for brokerage houses to offer securities on margin. LatinClear has received authorization from the CNV to establish a mechanism to place a security interest on a security that may have been purchased on margin. However, the brokerage houses are starting to organize their bookkeeping to finance the purchase of securities. It is anticipated that margin financing will be available by the fall of 2005.

Each brokerage house is required to have an order book. At the end of each day, not only does the BVP but each brokerage house must preserve the records of the transactions concluded during the day. All trades have to be confirmed in writing to the BVP by all brokerage houses by sending a copy of the order forms for the bid or offer that has been executed. This allows the BVP to identify if the transaction is for account of the brokerage house own account or executed on behalf of a client's account. In addition, this will serve as backup in the clearing and liquidation of the transactions with LatinClear.

### **Listing criteria of issuers at the BVP**

In order to be listed in the BVP, an issuer must complete the following steps.

1. Obtain the requisite registration authority of the CNV and the listing process with the BVP. A full description of the process is included in page 11 under "Operation of the BVP".
2. Comply with the requirements for depositing securities with LatinClear or any other authorized clearing and settlement agency.

3. Distribute the Informative Prospectus.
4. Observe the rules of conduct and for governance established by the BVP, and;
5. Pay the required fees and list the security with an ISIN identifier.

When there is a public offering, there are other requirements that seek to inform the investing public of the terms and conditions of the offering prior to the initial public offering. Such requirements are the publication of offering notices in the local newspaper and in public web sites and the distribution of preliminary prospectuses (the Panamanian version of red herrings) to the members firms and to the public

The BVP has become the main conduit for the issuance of domestic governmental securities of a short and medium term. This market began in 1999 and has continued to develop as the Government of Panama has expanded the number and characteristics of its debt instruments issued domestically. There are ongoing efforts to promote market makers for government securities.

### **Market Information at the BVP**

At the end of each trading day, a summary of the trade activities is provided to the general public by the BVP. Information is also shared with Reuters and with local printed media for dissemination purposes. Information on line is provided to [www.panabolsa.com](http://www.panabolsa.com), which is the BVP website, three times a day: at 10:30 am, at noon and at 2:45 pm. Also, at the close of the session information is provided to Reuters and to [www.capitales.com](http://www.capitales.com). Since the volume of the BVP is relatively small (average between 10-15 trades per day), the information disseminated is precise as to the trades concluded each day. Each quarter and at the end of the year, the BVP issues general statistics as to how it has performed. This is part of the requirements established for the BVP as a private issuer, listed and trading in the BVP. The BVP does not provide any research on the various securities traded on the BVP.

The securities law mandates the disclosure of all relevant information in a prompt and clear fashion. The rules of regulations of the Exchange also spell out this. Violators may be fined and membership or listing on the Exchange may be suspended or cancelled up and above the sanctions imposed by the CNV. Any material adverse change that may affect the price of securities is required to be reported to the BVP as soon as it is known. This information is in turn provided to the investing public and to brokers from the website of the BVP and distributed to the media the same day. The CNV also posts material changes of issuers on its website.

Besides the information that must be submitted by issuers, broker dealers are required to report their transactions on a daily basis to the Exchange which in turn reports them on the same day to the CNV. Broker dealers, must also report off-exchange

transactions to the CNV daily. Monthly, all broker dealers including Exchange members will provide a summary of transactions to the CNV. All the authority of the CNV to require records and reports from broker dealers are clearly spelled out in the securities law, specifically under Title III and Title IV.

Under Title IX, “On prohibited Activities” the securities law specifically address fraudulent or deceitful acts (art. 195), exploitation of privileged (Art.196), information insider trading and market manipulation (art. 201), among other forbidden activities. Any purported violation of the law by Exchange members must be reported immediately to the CNV, notwithstanding any actions by the Exchange. Market manipulation, fraudulent acts, false information and insider trading are also criminal offenses under articles 393A, 393E and 393G of the Criminal Code of Panama, as stated previously.

### **Cross Border Listing of Securities**

The BVP has implemented several agreements with the El Salvador and Costa Rica stock exchanges that permit the cross border listing of securities. These agreements have take the form of Memoranda of Understanding (“MoUs”) to facilitate the growth of the regional securities market. By means of these agreements, debt and equity securities are now traded across the border in three exchanges. There are now two Salvadoran banks (Banco Agricola and Banco Cuscatlan) whose equities are traded at the BVP. Two closed-end funds from Costa Rica are also traded at the BVP. Several Panamanian debt issuers are trading in El Salvador. The perspectives for cross border trading are growing rapidly as issuers recognize the increased liquidity as well as the possibilities of tapping simultaneously three markets. These arrangements have been possible in part by the implementation of parallel custodial agreement between LatinClear and local clearance and settlement agents in these countries.

### **Request for Recognition as a Designated Offshore Securities Exchange**

The general information provided above serves to broadly define the general facts needed for analyzing the seven factors that are examined under Rule 902 (b) (2). Detailed below are each of the attributes of this Rule as they apply to the BVP:

#### **A. Organization under Foreign Law.**

All organized stock exchanges in Panama must be licensed by the CNV (see Art. 52, 1999 Securities Law). The BVP is a corporation organized under Panama’s corporate law, which is modeled after the State of Delaware’s corporate law statutes (1927). It has been in existence for 15 years. It’s scope of activities is governed by its articles of incorporation, by-laws and by the internal rules and regulations adopted as an SRO for operating the securities exchange and by the 1999 Securities Law. The BVP is a licensed and recognized stock exchange in the

Republic of Panama and is also an SRO. In order to obtain the license, the BVP had to meet the criteria established by law and listed below:

- (1) Demonstrate that it has the technical, administrative and financial capacity and the personnel necessary to offer the services for which it is requesting a license, to be able to comply with the norms established in the law and its regulations as well as its internal rules and the compliance by its members, directors and staff of these internal rules and the law and regulations.*
- (2) Comply with the capitalization requirements established by the CNV, which shall have authority to establish capitalization requirements for SROs, so that they can meet the obligations acquired and protect the interest of the investing public. Minimum capital for an Exchange is US\$250,000 a requirement that could be changed by the CNV anytime.*
- (3) Comply with the requirements of the law and the regulations adopted there under for obtaining a license and operating the exchange business.*
- (4) Establish internal rules that comply with the law and the regulations adopted there under.*
- (5) Comply with the requirements of Article 50 of the law (that excludes certain persons from the securities markets due to felonies or other crimes) and confirm that its directors and officers comply with the same.*
- (6) Present an application for the license with the necessary information and documentation required by the CNV for the granting of the license and the operation of the exchange business.*

Source: Art. 52, 1999 Securities Law

The BVP has a net worth reported at US\$3.66 million as of December 31, 2004. It has a staff of 14 of employees. Since the volume of operations is small and the transactions are all automatically handled by *SITREL*, not many staff are needs to operate the Exchange.

**B. Association with a generally recognized community of brokers, dealers, banks, or other professional intermediaries with an established operating history.**

All fifteen brokerage houses that own a seat at the BVP are regulated by the CNV. Most of the brokerage houses are affiliated or subsidiaries of local banks. Some of these brokerage houses started operations in the early 1990s when the BVP was in its infancy. The capital market has developed in Panama in part because there are over seventy banks operating in its territory. (See [www.superbancos.gob.pa](http://www.superbancos.gob.pa)). These banks are regulated by the Superintendent of Banks and must execute any transactions in the BVP through one of the brokerage houses that own a seat at the BVP. These banks offer fiduciary services and act on behalf of third parties to purchase securities both locally and internationally.

Brokerage house personnel namely, brokers officers and principal officers of brokerage houses must be licensed by the CNV. Other than submitting personal information and references and provide an endorsement from the brokerage house they will work, the candidates must pass a basic exam (similar to a NASD Series 7 exam) given by the CNV. The house personnel that will act as Principal or as Compliance Officer for the Brokerage house, must obtain a second license and pass a second, more rigorous exam (equivalent to a NASD Series 8).

Each year, the licensed members are required to attend a money laundering course. The compliance officers are required to attend two money laundering courses each year as part of their ongoing training. The Panamanian Banking Association offers courses to prepare for the securities exams as do certain private training entities.

The complexity of the legal structure has increased since the 1999 Securities Law was adopted. Title III provides the regulation framework for licensing and operation of broker dealers and its personnel. Most relevant regulations from this title are authorized activities (art. 27), net capital rules and liquidity (art.28); ownership of brokerage houses (art. 29), records and books (art.33) as well as the mandatory compliance with a code of fair practice (code of conduct).

Most of the articles or titles of the securities law have been regulated by a resolution of the three commissioners of the CNV better known as Agreements. Since it became operative the CNV has issued over sixty (60) Agreements setting forth rules and regulations for specific statutes or Titles of the law or amending existing agreements. On the activities of the BVP and brokerage houses, the CNV has issued some twenty (20) Agreements, the most relevant topics covered by them are:

1. Agreements setting forth requirements and procedures licensing broker dealer houses, SRO's and broker dealer and SRO personnel.
2. Agreements setting or adopting accounting and reporting standards for all financial information submitted by houses and SRO's to the CNV and the public.
3. Agreements setting criteria and standards for the examinations to be administered to applicants of broker dealer and Principal Licenses.
4. Agreements setting the criteria and minimum content of the Code of Conduct of houses and reporting duties to clients and investors.

5. Agreements setting minimum capital rules and liquidity requirements for broker dealers (For example, houses are required a US \$ 150,000 minimum capital as well to comply with net capital rules that are a function of their activities and levels of risk undertaken)

In 1991, brokers organized and established Panama's Association of Securities Brokers (*Asociación de Agentes Vendedores de Valores*). This is a non-profit entity that currently has 49 members from different institutions. (See [www.aavv.com.pa](http://www.aavv.com.pa)). Among its stated objectives is the development of professional securities brokers in Panama with the requisite technical, ethical and business knowledge. It seeks to represent, promote and protect the interest of its members in the exercise of their profession as securities brokers. It is charged with lobbying for needed legislative or administrative changes that will improve the securities market. It also serves as a vehicle between the national community of organized securities brokers and national and international professional associations that are dedicated to strengthening the capital markets. Recently, the Panama's Chamber of Securities Issuers (Cámara de Emisores de Valores de Panama) was formed on the 2<sup>nd</sup> of January of 2005 with 22 members. This association seeks to protect the interest of issuer and promote the development of the Panamanian capital markets and to participate actively in the national and regional market. This new association will also promote the adoption of new agreements to expand the activities of the capital markets. (See <http://www.emisoresdepanama.com> currently under construction).

The BVP has been since 1994 a designated numbering agent by the Association of National Numbering Agencies (ANNA) for purposes of assigning ISINs to securities.

The BVP is a firm believer of market expansion through market integration. It has become active member in the following international organizations in an effort to keep abreast of the latest developments and best practices in the exchange markets:

- Iberian-American Federation of Exchanges (FIAB or "*Federación Ibero Americana de Bolsas*") since 2004.
- The World Federation of Exchanges since 1997.
- The Stock Exchange Association of Central America and Panama since 1991.

Mr. Roberto Brenes, EVP/GM of the BVP sits in the working committees of FIAB. He is also a Board member of the Stock Exchange Association of Central

America and Panama. These organizations are geared to integrate the capital markets and promote cross border securities trading.

Although Panama is an emerging capital market, the professional quality of the staff hired by banks and brokerage houses is first rate. Most professionals have been educated in the United States. Brokerage houses are linked directly or indirectly with major international markets by US based broker dealers. In order to serve local clients, brokerage houses and banks offer both domestic and international securities. Merrill Lynch, Wachovia Securities, Bear Stearns, Oppenheimer & Co are some of the US based broker dealers that operate in Panama directly or indirectly through local brokerage houses or banks.

The integrity of the market is also strengthened by the adoption of International Accounting Standards for reporting the financial results of the local issuers that trade in the BVP. The presence of major international auditing firms that have local operations (for example, KPMG, Deloitte, Ernst & Young) assures the professional capacity to undertake rigorous audits under the International Accounting Standards. In summary, despite the limited size of the local securities market, it has an organized and active body of actors that permit the successful operation of the local and regional securities market.

Although there are currently no formal market makers in the BVP or in the Panamanian capital markets; the Exchange has began a process to incentivate market makers, introduce periodic price auctions for less liquid securities and contract price vendor services to provide reference prices all geared to improve price formation and liquidity.

### **Becoming a member of the BVP**

All brokerage houses that operate in Panamá must be CNV licensed. Besides this broker-dealers must have completed the requirements listed below to become a member of the Exchange. Their personnel also must be CNV licensed. The brokerage houses must have the institutional capacity and financial solvency to handle the funds of its clients and its trading transactions. The following are the prerequisites to become a member of the BVP:

1. Have a license from the CNV and have licensed personnel (See page 19 above).
2. Purchase the right to a seat in the BVP, either by auction or by purchase from a former seat holder.
3. Be a broker dealer dealing **only** in securities.
4. Have an executive officer and a compliance officer as required by the CNV.

5. Have a paid in capital of not less than US\$250,000 and own at least 2,500 shares of the BVP.
6. Be the beneficiary of performance and fidelity bonds/insurance as required by the BVP.
7. Agree to the terms and conditions established by the BVP for its members (including being a member of LatinClear).

Brokerage houses with seats in the BVP must submit their audited financial statements to the BVP and to the CNV no later than three (3) months after the close of the year and interim financial statements no later than two (2) months after the close of each quarter. The BVP must also submit its own financial since it is a registered issuer with the CNV. All market participants must have policies and procedures designed to prevent fraudulent or deceptive or manipulative practices that may affect the transparency of the markets. These are prohibited activities, both by law and by norms established by the BVP.

### **C. Oversight by a governmental or self-regulatory body;**

The 1999 Securities Law revamped the structure and operations of the CNV. It is headed by three Commissioners responsible for overseeing and regulating the securities markets. The CNV has 29 permanent staff and 11 contractors distributed among the following divisions: 1) legal; 2) Securities Registrations (Corporate Finance) ; 3) Market and Intermediaries (Trading and Markets); and 4) Enforcement and Investigations. (Compliance). In addition, there are specialized programs focused on pensions, technology and investor educations. Currently, the CNV has 91 issuers registered and oversees the operations of 21 investment houses, 269 stockbrokers, 113 principal officers, 39 analysts, 30 investment managers, 4 credit rating entities, 30 brokerage houses and two investment advisors. There are two SRO under its supervision, one of which is the BVP; the other is Latinclear; the only clearing and settlement system operating in the domestic Panamanian market. Three new brokerage houses have pending applications to enter the securities market. Further information about the CNV could be found on its web page <http://www.conaval.gob.pa>.

The CNV has the authority to examine any operation or entity that is under its jurisdiction. For example, the BVP was subject to a full scale audit in 2004 by the CNV on all its policies and procedures. A detailed audit report and recommendations were issued at the conclusion of the audit and the BVP made the necessary corrections as a result of the findings from that audit. Although the CNV has authority to investigate any broker dealer, including Exchange members, it does not directly survey trading by broker dealers in the Exchange. The CNV

follows the BVP market screens and will request the Exchange specific information or an investigation of specific transactions.

The BVP is a SRO under the authority established in Title IV of the 1999 Securities Law and is licensed by the CNV. By virtue of this status, By virtue of its status, it can undertake the following disciplinary actions against those members of the BVP for violation of its rules or the 1999 Securities Act:

- Expel a member and/or its employee(s) from the BVP.
- Suspend the operations of member and/or its employee(s) at the BVP.
- Fine the member or its employee(s).
- Reprimand a member or its employee(s).

As an SRO, it has clear standards of conduct established by the law. Every “addition, modification or repeal of the internal rules of a self-regulated organization” must be submitted to the CNV prior to it coming into effect. The CNV has 30 days to comment on the proposed changes; otherwise they are adopted by the SRO without further action. The CNV has the authority to suggest the addition, modification or derogation of the internal rules of an SRO. The BVP has control of and authority to penalize its members and there are due process disciplinary standards adopted for the SRO under the 1999 Securities Law. The BVP must inform the CNV of any disciplinary action against a member, its officers or directors or staff. In addition, the CNV has authority to penalize the members of the BVP, regardless of the penalties imposed by the BVP as a SRO.

#### **D. Oversight standards set by an existing body of law;**

The 1999 Securities Law has been adopted to regulate the Panamanian securities market. It was adopted after examining, for comparative purposes, the governing principles of IOSCO, the U.S. federal securities law, the (State) Uniform Securities Act (1985) The American Law Institute’s proposed Federal Securities Code, the Quebec Securities Act and the proposed securities law for Canada. The basic international reference documents used was drafted by members of the law firm of Sullivan & Cromwell in New York. Also, the new securities law utilized the conceptual framework contained in the Uniform Commercial Code-Investment Securities (Article 8) and incorporated almost verbatim translations into Spanish of specific sections of Article 8. Thus, the BVP and most practitioners are of the opinion that Panama’s securities law is one of the most modern and up to date securities laws in Latin America.

The 1999 Securities Law has 285 articles and is divided into Thirteen Titles. (See attached copy of the law) There are specific portions of the law that address registration, SROs, anti-fraud provisions, market manipulation, investment vehicles, insider trading and other specific norms that track closely the best legal practices adopted in established international jurisdictions with high standards designed to protect investors and regulate the capital markets.

The CNV has rulemaking authority and it has since year 2002 implemented specific rules and regulations there under to regulate and strengthen the domestic capital market. These rules are set forth through Agreements (see page 19 under **(B) Association with a generally recognized community of brokers, dealers, banks, or other professional intermediaries with an established operating history**). The CNV has independent rule making authority within the boundaries of the securities law but it does not have legislative initiative to promote new legislation or amendments to the law. All law initiatives for the securities market by the Executive Power<sup>3</sup> must be initiated by the Ministry of Finance.

#### **E. Reporting of securities transactions on a regular basis to a governmental or self-regulatory body;**

The BVP reports on a daily basis to the CNV the transactions that were concluded during the trading session. On a monthly basis, the BVP also supplies the CNV a summary of the transactions that have been concluded during the month, but arranged by issuer, by brokerage house and by type of instrument traded.

Apart from the transaction reports sent the BVP to the CNV (see **Market Information at the BVP** above), the Exchange submits to the CNV copies of reports on possible money laundering activities. Such reports must be filed by the Exchange with the Panamanian Government's anti-money laundering unit (called in Spanish "*Unidad de Análisis Financiero*" or "UAF" or Financial Analysis Unit in English). The UAF is attached to the internal security agencies of the government. This type of report is also required from brokerage houses and is submitted to both the UAF and the CNV in observance of national anti-money laundering legislation, rules and regulations. Bank and other financial entities are also required to submit similar reports to the UAF.

Brokerage houses must transact all trades through **SITREL** so that the BVP, as an SRO, has access to all orders, trades and transactions. Also, the brokerage houses must report immediately to the CNV and the BVP any personnel changes that occurs in the composition of its brokers or officers. There are specific rules

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<sup>3</sup> Executive Power: The executive branch of the government.

on the functions that officers can undertake, so that they cannot serve as brokers when they undertake to perform certain functions for the brokerage house.

**F. A system for exchange of price quotations through common communications media; and**

The BVP utilizes an electronic trading systems *SITREL*. The software system was developed in Chile as a joint cooperative project between Sun Microsystems Inc., a subsidiary of the Nasdaq Stock Market and the Chilean Electronic Exchange (*Bolsa Electrónica de Chile*), Chile's only online stock market. *SITREL* is part of the Open Global Electronic Transaction System, or *OpenGets*, software family of products that support automated securities markets, as well as online auctions and biddings, trading floors, and other transactional activities. The BVP has only purchased the automated securities market module and has adopted this software to the regulatory standards imposed in Panama by the CNV. *OpenGets* has been licensed to entities in St. Kitts, Colombia, Costa Rica, Uruguay, and Venezuela.

*SITREL* operates through the main server located at the BVP. Communications are currently by dedicated land lines. Each user is required to control the security of his terminal and the applicable codes. Each brokerage house and the CNV have access to software modules so they can link-up to the electronic trading system software of the main server at the BVP. There is a redundant server off-site that runs parallel in case the main servers is somehow unable to function. The CNV can monitor trades but cannot enter trades since it has no operative codes. The BVP is changing the communications system between the various nodes and the central server to a virtual private network (VPN) protocol and encryptions that assure the integrity of the data transmitted or received. In effect, all the systems will be linked using the World Wide Web (internet) instead of dedicated lines. This assures the users that the trading system will operate as long as the Web is operational. This will reduce operating costs for users and also allow the Salvadorian and Costa Rican brokerage houses and others at the regional level to access information by means of the VPN and *SITREL*.

Communications is also possible through *SITREL* between the BVP and the various brokerage houses that are members of the BVP. Any order or communications flows through the VNP band to the central servers at the BVP and the information is then disseminated to all terminals using the *SITREL* system, including the terminal assigned to the CNV. The experience of the BVP with *SITREL* has been very positive and this system should meet the needs of the local market for many years given the current volume of transactions traded.

## **G. An organized clearance and settlement system.**

The BVP has adopted rules that require that all securities traded through the BVP be in the custody of LatinClear and dematerialized. LatinClear is used exclusively for this function by the BVP and is its clearing and settling entity. LatinClear has been evaluated to be an International Depository of Eligible Securities according to the Rule 17F-7 of the Investment Company Act of 1940. With the above rating, LatinClear complies with the necessary requirements to serve as a central depository for assets of investment companies that operate in the US and Canadian markets. As at December 31, 2004, the total value of assets held under custody were US\$3,246,445,090.

LatinClear was created in 1994, under the auspices of the Inter-American Development Bank and the Stock Exchange Association for Central America and Panama. It is a private corporation that began operations in 1997 and whose principal stock holders are the brokerage houses and banks. LatinClear was authorized to administer the custody, clearing and settlement of securities according to Resolution No. CNV-68-97 of July 23, 1997, issued by the CNV. LatinClear's website contains, within its annual reports, detailed information in English as to its operations. (see <http://www.latinclear.com.pa>).

LatinClear has the capacity to credit or debit the net amount due from each brokerage house at the end of each day for any given transaction mode (T+3, according to the G30 standards). In effect, LatinClear uses a continuous netting system for all transactions conducted through *SITREL*. Each brokerage house is required to have standing credit lines with its designated bank so that the transactions it executes can be paid without any delays. If the trades during one session exceeds the credit limit and deposits of the brokerage house at the designated bank, the *SITREL* system rejects the transaction order and it has the responsibility of the member to arrange for an increase in the credit lines with its designated bank in order to allow the transaction to be registered on the *SITREL* system.

Investors can obtain LatinClear's services through any of twenty-three participants, among which are the brokerage houses, licensed banks and other qualified financial institutions. LatinClear has also opened reciprocal accounts with other securities depositories in the region and with *Clearstream* in Luxembourg (formally Cedel Bank). In this manner, LatinClear has the availability of custodial services in countries such as Costa Rica, Nicaragua, El Salvador, Guatemala and Honduras, and with *Clearstream* in Luxembourg. Through these international custodial services, LatinClear can offer its participants, and their clients, custody services for many securities traded in the international

marketplace. Thus, LatinClear can serve as a regional and international clearing and settlement entity.

LatinClear has automated the custody function so that payments or transactions, from example dividends, stock splits or coupons, among others, are automatically credited to the corresponding security. This is an integrated function of LatinClear's continuous netting system. Each brokerage house and investor that has an interest in a security under the custody of LatinClear can thus be assured that the transactions for these securities will be automatically registered in their investment accounts. LatinClear's system is online, so that brokerage houses can see their accounts at any given time and reconcile their internal books with their account at LatinClear. The system relieves investor of the requirement of safeguarding their security instruments and avoids problems related to lost, deteriorated or misplaced certificates. In addition, the investor can be assured that any transaction handled by a brokerage house that is a member of the BVP will be duly implemented by LatinClear's secure clearing system. The same applies to payments or other transactions related to the deposited securities.

From a market perspective, the use of dematerialized securities facilitates the issuance and trading of securities in the BVP. The transactional costs related to buying/selling securities are reduced and the certainty as to execution is strengthened. The LatinClear system has a field for the ISIN for the securities placed in its custody. The BVP supplies the ISIN as an agent of ANNA. Further, LatinClear observes the norms established by the Group of 30 (G30), a private international group that seeks to standardize financial practices in the international arena.

## **Conclusion**

The information detailed above supports the application of the BVP as a designated offshore securities exchange, given the facts as applied to Rule 902(b)(2). The BVP has undertaken to develop the Panama's capital market and the designation under Regulation S as an offshore designated securities exchange or market will strengthen its role in that capacity while providing additional legal certainty to both local and international investors that trade in the BVP.

Based on the foregoing information, the Bolsa de Valores de Panama respectfully requests that the Securities and Exchange Commission recognize it as a designated offshore securities market within the meaning of Rule 902 (b)(2) of Regulation S. The undersigned and the staff of the BVP are available for any questions that may arise in the course of reviewing this application.

Very truly yours,

**BOLSA DE VALORES DE PANAMA, S.A.**



**Roberto Brenes P.**  
Executive Vice President  
and General Manager