

Peru

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Regulation and classification of financial services

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The transformation of the old Peruvian financial system into a modern one occurred at the beginning of the nineties. This modernization allowed Peru to surpass the economic crisis that strongly impacted the Peruvian economy as well as other Latin-American countries.

The General Law of the Financial and Insurance Systems, enacted in 1996, rules the functioning of the financial system and establishes the capacity of the Superintendence of Banking, Insurance and Private Funds Administrators (SBS) to supervise and control financial entities.

Banking system

The General Financial Law put into effect the recommendations of the Basel Committee on Banking Supervision, establishing limits based in the patrimony of the bank, as well as enforcing other prudential regulations. The Law incorporates some principles that must be known in order to understand the function of the banking system:

- *Treatment of foreign investment:* foreign investment receives the same treatment as any local investment.
- *No participation of the state in the financial system:* with the exception of three entities, the financial system is integrated only by privately owned capital. These three state-owned entities are Corporación Financiera de Desarrollo (a second-floor development bank), Banco de la Nación (the financial agent of the state) and Banco Agropecuario (the development bank for agriculture).
- *Prohibition of discriminatory treatment:* it is forbidden to apply different treatment to:

(i) companies of a similar nature; (ii) companies of a different nature but concerning the same type of transactions; (iii) companies established locally with respect to similar foreign companies; and (iv) requirements for obtaining loans for Peruvian persons or corporations with respect to foreign persons or corporations.

- *Freedom to assign loans to any economic sector:* financial corporations are free to assign loans to whoever they consider, within the limits imposed by law and respecting criteria for diversifying risk.
- *Freedom to fix interest rates, commissions and charges:* financial corporations are free to fix the interest rates applicable to their active and passive transactions, as well as to determine the commissions and charges that must be paid by their clients for the services they receive. The only requirement is to inform their clients of those rates, commissions and other charges.

The banking system is divided into three groups: multi-business companies, specialized corporations and investment banks.

Multi-business companies

These companies can be banking or financial institutions; municipal savings and loans corporations or popular finance entities; small businesses or micro-enterprise development entities; savings and loans associations authorized to receive public deposits; or rural savings and loans houses.

The General Financial Law allows banking institutions to engage in a large range of credit transactions as well as to invest in securities. Banks are forbidden to engage in other operations not specifically established in the General Financial Law or otherwise authorized by the SBS. Branches of foreign banks authorized by the SBS are allowed to engage in the same transactions as Peruvian banks and are subject to the same duties and obligations.

Differences among multi-business companies are due to the types of operations they are allowed to engage in; while banks are authorized to engage in all the transactions established in article 221 of the General Financial Law, the other types of multi-business company are authorized to engage in just some of them. To be permitted to engage in other type of transactions, they must fulfil minimum capital and risk-management requirements.

Specialized corporations

These can be real-estate capitalization companies; leasing corporations; factoring corporations; surety and bonding corporations; or trust companies.

Specialized corporations are authorized to offer just some of the services that banks render and all of them are related to the nature of the type of corporation.

Investment banks

Investment banks are authorized to render financial advisory services and to value corporations, as well to realize investments in Peru or abroad and to structure operations regarding the issuance of securities. They are not permitted to receive deposits or to give loans of any type.

Apart from multi-business companies, specialized corporations and investment banks, the General Financial Law also regulates other companies that offer services to financial corporations, including general bonded warehouses; transport, custody and specie management companies; debit and credit card companies; exchange services companies; and fund transfer corporations.

Banking and capital markets

Recommended firms

Tier 1

Estudio Ehecopar
Miranda & Amado
Muñiz Ramírez Pérez-Taiman & Luna-Victoria
Rodrigo Elías & Medrano

Tier 2

Payet Rey Cauvi
Rebaza Alcázar & De Las Casas
Rubio Leguía Normand y Asociados

Tier 3

Estudio Aurelio García Sayán
Estudio Grau
Estudio Olaechea
Hernández & Cía
Rosselló Abogados

Mergers and acquisitions

Recommended firms

Tier 1

Estudio Ehecopar
Rodrigo Elías & Medrano

Tier 2

Miranda & Amado
Muñiz Ramírez Pérez-Taiman & Luna-Victoria
Payet Rey Cauvi
Rebaza Alcázar & De Las Casas

Tier 3

Estudio Grau
Estudio Olaechea
Hernández & Cía
Rubio Leguía Normand y Asociados

Project finance

Recommended firms

Tier 1

Estudio Ehecopar
Muñiz Ramírez Pérez-Taiman & Luna-Victoria
Rodrigo Elías & Medrano

Tier 2

Estudio Aurelio García Sayán
Miranda & Amado
Payet Rey Cauvi
Rosselló Abogados
Rubio Leguía Normand y Asociados

Tier 3

Estudio Olaechea
Hernández & Cía

The Peruvian economy has been averaging a growth rate of more than 4%, and is now enjoying its seventh year of continued growth. Foreign investors have found stability in the administration of an old/new president; Alan García has apparently learned the benefits of foreign investments in the country since his previous stint as president. At the time of this writing, García had declared his government ready to sign a free-trade agreement with the US, without delay. If passed, such an agreement would bring even more money, investors and businesses to Peru. The country is serving as a counterbalance in the region to the neo-nationalism of Venezuela, Bolivia and Ecuador. Retail sales are surging, and unemployment is reaching a record low. Market watchers have commented that Peruvians are very optimistic these days.

The capital markets reflect the overall growth in the country, especially the debt markets. There are investment opportunities for new banks to explore and establish themselves in Peru. New and important banks like Scotiabank, HSBC and Banco Santander are either buying local banks, looking to buy them, or simply establishing their own operations in the market.

The Lima Stock Exchange is one of the fastest-growing in the region, with much interest in listed securities and new offerings. Peru has several pension funds with some \$16 billion to invest; by law, these monies must be invested primarily in the local markets. Big appetite meets bounteous offerings.

There's a lot of activity in bond issuances and commercial paper. Companies in need of capital are tapping the debt markets rather than offering shares or using traditional bank loans. Market insiders expect this trend to reverse within the next two years, as more companies begin to go public. If there is any bank lending, it is usually in the form of bridge loans or temporary loans, which are then paid off with securitized debt.

Despite the liquidity of local markets, financing still tends to come from foreign banks eager to invest in a developing but stable country. For now, investors continue to receive higher yields on average, but in the short term the risk will decline as the country's credit ratings continue to improve. This is attractive to foreign investors, who prefer not to lock up money for lengthy periods in unstable investments.

M&A activity has been spectacular. The huge appetite for deals comes not only from international companies but also from local ones looking to consolidate their industries. The fishing industry is perhaps the most active, with local buyers competing with Norwegian and Chinese fishing companies for acquisition targets.

Of course, mining is always an important area for activity in Peru, but several new industries have become quite desirable. Services companies – any company providing professional services, such as marketing or consulting – are being approached by international firms. The agricultural business is also receiving new attention. It's not just traditional agricultural products, but also those used for biofuel development. Overall, there is a lot of interest by local companies to grow into the global economy by expanding or working with foreign partners.

While project finance work is not as hot as other areas, this could change quickly. Market specialists believe that regional project such as airports and urban transportation programmes will become important. The port of Callao, for one, needs to expand and build new piers for container ships so that Peru can compete for deep-water shipping.

Estudio Ehecopar

Estudio Ehecopar is one of the oldest and largest firms in Peru and is one of two firms in Peru that are ranked in the top tier for all practice areas. Unlike some of the country's other older firms, this is one traditional blue-chip firm that has kept up with the times. A rival partner said: "They are the elite because of their tradition and their ability to modernize."

In the equity capital markets, Ehecopar banked on that reputation to help its client Intergroup Financial Services go public in a June 2007 offering. The initial public offering (IPO) of the holding company for Peruvian bank Interbank and insurance company Interseguro raised \$269 million. Considering the dearth of activity in the equity markets, this is a notable issuance.

Another equity markets deal saw the firm advise its client Grupo Santander Perú completely divest its shares in the stock of AFP Unión Vida. The bank sold the shares to fund managers Prima AFP in a \$142 million July 2006 sale. Banking practice area leader Javier Castro led the team in this deal.

The firm was also quite active in bank lending, once again bucking the general trend in an area that has not seen much activity. Ehecopar helped its banking clients in a series of loan deals in the last quarter of 2006 totalling \$425 million. October 2006 saw two deals – a \$60 million loan to fishing company Sipesa, with Ehecopar advising the syndicate that included BBVA Bancomer and BNP Paribas, and a \$125 million facility for the firm's client CFG Investment by HSBC. This was followed in November by a \$165 million loan from Standard Bank and BNP Paribas to InterOil Exploration and Production.

Echecopar advised Standard Bank in its part of the deal. The firm capped off the year advising Citibank in a \$75 million loan to mining company Atacocha. The December 2006 deal was the last for the year.

The fishing industry has always been important to Peru's economy, and consolidations have surged. Echecopar client CFG Investment – the investment arm of China Fishing Group – acquired three smaller fishing companies: Alexandra, Pesquera Victor and Empresa Pesquera Flor de Ilo. Jorge Ossio, Echecopar's group leader for M&A, led the team in this October 2006 deal which went for \$104 million.

The firm's client list includes mostly financial companies: Corporación Andina de Fomento, Deutsche Bank, UBS and Credit Suisse. Non-banking clients include Brazilian brewery Ambev, Siemens and Dutch supermarket chain Koninklijke Ahold.

Leading lawyers

Javier Castro Salinas
Ismael Noya de la Piedra
Jorge Ossio

Hernández & Cía

This is the second year since Hernández & Cía established its presence as a stand-alone firm, and it has confirmed its appearance in the *IFLR1000* rankings. The 20-lawyer firm has created a good reputation for itself, particularly in the capital markets. There has not been much turnover at the practice, but it is perhaps important to note that Lilian Rocca Carbajal, former president of the Peruvian exchange commission, joined as a partner in March 2007.

Leading partner Juan Luis Hernández advised the firm's client Compass Group in the launch of several new investment funds. May 2006 saw Compass launch its Pymes II fund, a \$12 million fund that invests in small- and medium-sized companies. These companies are becoming important to the Peruvian economy, as it matures beyond large family-owned corporations. This was followed by the April 2007 launch of a \$65 million Compass capital appreciation fund. Again, the firm is helping its client take advantage of the growth in the Peruvian economy.

In the debt capital markets, Hernández & Cía helped place bonds for a number of clients. In October 2006, the firm advised Banco de Crédito del Perú in an \$80 million bond placement for Cemento Andino. The firm also advised Cofide, the economic development agency for small and rural companies, on the placement of a series of bonds for \$54 million. This is part of an effort to raise capital for the agency.

The largest M&A deal for Hernández & Cía was its role in the worldwide sale of Kodak's Health Group to Canadian investment group Onex. The new company, Carestream Health, was created out of the \$2.35 billion sale; the firm advised Kodak in the Peruvian leg of the deal.

Less flashy but more relevant to the traditional Peruvian economy was the Lumina Copper deal in the important mining area of Cajamarca. Lumina Copper purchased the rights to mine El Galeno Copper-Gold property in northern Peru. The original \$2 million deal was struck in 2003, but the payment schedule had been stretched out over the ensuing four years. The final \$1.12 million balloon payment was made in April 2007.

The firm advises financial clients such as Citibank, Goldman Sachs, HSBC, Interbank and Credit Suisse, as well as multinational companies like Procter & Gamble and Kodak.

Leading lawyers

Juan Luis Hernández

Miranda & Amado

The young and rising firm of Miranda & Amado confirms its top ranking in the capital markets and banking area with another strong year. Market perception of the firm is high, and some expect the firm to be a top-tier player in all practice areas soon. A partner at one leading firm said: "They are top-rate, intelligent, knowledgeable lawyers. I think they are extremely capable, but I'd like to see them with a little more experience. They have a bright future."

Miranda & Amado advised Citibank in its participation as purchasers of \$120 million 15-year notes offered by Banco de Crédito del Perú. The local bank is one of the largest in the country, and this deal allowed it to increase its capital base. The firm also advised BBVA Banco Continental in its efforts to increase capital. The Peruvian bank made a \$120 million subordinated bond offering. Both deals demonstrate both the liquidity of the local debt market as well as Miranda's abilities to advise clients in such deals.

The firm appears to have a knack for helping its clients get involved in strategic industries. Fishing company Pesquera Diamante is preparing for a round of acquisitions in the ever-competitive Peruvian fish industry. Again it was Miranda client Citibank offering assistance, this time in a June 2007 secured loan facility for \$165 million to Pesquera Diamante to be used for strategic acquisitions.

Miranda & Amado has hired four new associates specifically for its capital markets and banking practice areas.

The firm participated in M&A deals in the increasingly important agribusiness industry. Grupo Gloria, a leading conglomerate with operations in various industries, acquired several agribusiness companies over the course of the last quarter of 2006 and the first quarter of 2007. The aggregate total of \$150 million was one of the larger deals that Miranda & Amado transacted last year. There are also indications that the deal signals Grupo Gloria's intention to move into the ethanol and biofuels industry.

Another key area is the fishing industry, and the firm represented Citibank's venture capital group in one of the first private-equity deals in the industry. The group purchased a 30% equity interest worth \$30 million in Pesquera Exalmar, the eighth-largest fishing company in Peru.

Miranda & Amado also receives credit from its competitors for its work in project finance, acting for both borrowers and lenders. The firm represented the syndicate of Citibank, Royal Bank of Scotland and Bank of Nova Scotia in a \$150 million secured loan to Gold Fields La Cima. The Peruvian subsidiary of Gold Fields used the proceeds of this November 2006 loan to develop the Cerro Corona mining project.

It is for deals such as these that the partner at one leading firm said: "We think Miranda Amado have had a number of interesting deals in the past year. From our perspective, we view them as one of our strongest competitors."

Leading lawyers

José Daniel Amado
Luis Marcelo DeBernardis
Roberto MacLean
Luis Miranda

Muñiz Ramírez Pérez-Taiman & Luna-Victoria

With 106 lawyers – including 22 partners – Muñiz Ramírez Pérez-Taiman & Luna-Victoria is still the country's largest law firm. From Trujillo in the north to second city Arequipa in the south, the firm maintains a presence in five offices across Peru, and two more in Ecuador.

Muñiz Ramírez continues to represent high-profile clients in debt market offerings and bank lending activity. Two new attorneys were hired for the department, headed by Sergio Oquendo. The firm advised Citibank in the placement of a \$200 million debt obligation for Unión de Cervecerías Peruanas Backus & Johnston in a December 2006 deal. That same month, the firm also advised BBVA Banco Continental in the placement of

\$48 million debt obligations for Cementos Lima.

Following up on its participation in securitization efforts last year, Muñiz Ramírez participated in a couple more such deals in 2007. The future cash flow from the lease premises for the Megaplaza shopping mall in Lima were packaged into a \$30 million securitized offering in January 2007. The firm advised Inmuebles Panamericana, the developer of the property. This was followed by a larger offering in March, the second placement of fees from Lima's municipal toll roads, the Municipalidad Metropolitana de Lima (MML). Muñiz Ramírez advised underwriters Citibank and Scotiabank in the \$75 million offering for MML.

In M&A, the firm found a niche in the fishing industry. The firm participated in two fishing company acquisitions involving top-ranked companies. Client Pesquera Exalmar, which controls more than 4% of the total fleet load and processing capacity in the Peruvian market, acquired six fishing companies in a series of simultaneous transactions in December 2006. Then Peru's second largest fishing company, Copeinca, announced that it was acquiring Pacific Fishing Business in a deal estimated at \$39 million which closed in July 2007; the firm represented the seller in this transaction. Both deals were indicative of the consolidation of the industry.

Although the firm did not list any deals in project finance, the market considers Muñiz Ramírez to be a top-ranked firm in this area. The firm reported it has several projects in the works for next year, including advising Transportadora de Gas del Perú in the financing of pipelines to distribute natural gas extracted from the Camisea gas fields.

It should be noted that competitors continue to perceive that Muñiz Ramírez has yet to recover from the 2005 departure of name partner Albert Forsyth Solari. The deals in which Muñiz Ramírez has participated and the clients it has represented since the defection suggest otherwise, that the firm has overcome this issue. It will be interesting to see how this manifests itself in the firm's market profile in the coming years.

Leading lawyers

Jorge Muñiz Ziches
Jorge Pérez-Taiman
Mauricio Olaya Nohra
Sergio Oquendo Heraud

Payet Rey Cauvi

"They are a very active, up-and-coming young firm who are very well regarded in the market," said a partner at one of Peru's leading firms when asked about Payet Rey Cauvi. The

firm has held steady with six partners, along with 21 associates. Collaboration with the respected Spanish law firm Uría Menéndez expands Payet's potential reach to Portugal, Spain, Belgium, the UK, the US, Mexico, Chile and Argentina.

The capital markets are where Payet Rey Cauvi gets its greatest respect, and several large bond offerings that its clients placed last year bear this out. The firm advised Red de Energía del Perú in several financing transactions for the country's largest power transmitters. A local financing facility for \$34 million was granted in February 2006 by Banco de Crédito del Perú. This was followed a year later by three separate bond placements totalling \$180 million.

The firm participated in a cross-border financing transaction when it advised the local subsidiary of South African mining company Gold Fields. This November 2006 transaction was significant because of the importance of mining to the Peruvian economy. The \$150 million financing from a syndicate including Citibank, Scotiabank and Royal Bank of Scotland was used by Gold Fields La Cima to develop the mining project at Cerro Corona.

Another cross-border financing was the \$20 million term loan agreement placed for the Peruvian subsidiary of Brazilian energy company Petrobras. Juan José Cauvi led the team advising BNP Paribas in the February 2007 transaction.

Payet Rey Cauvi has really been establishing itself in the M&A market in the past couple of years. José Antonio Payet leads the corporate team, and has received plaudits for his work. One rival said: "Jose Antonio Payet is a very good lawyer, a tier-one lawyer." The consensus is that the firm will be a top-tier firm in the acquisitions area very soon, but is not quite there yet. Following up on a very successful year last year, Payet Rey Cauvi followed up with another strong performance in M&A. The most prolific deal was the firm's representation of Bayer Group in its \$5.3 billion worldwide sale of its diagnostic business to Siemens in January 2007.

José Antonio Payet led the team advising Staton Woods in its \$700 million acquisition of the Latin American operations of McDonald's. This was the Peruvian leg of an 18-country acquisition; Staton Woods was part of the consortium led by Restco Iberoamericano in this April 2006 deal.

In the local energy market, the firm counselled Spanish energy conglomerate Grupo Repsol on the merger of its two Peruvian power generation companies. The June 2006 deal which united Etevensa and Edegel totalled \$730 million. As a transactional firm, Payet Rey Cauvi switched sides in another Repsol deal. The firm advised Mobil in the

sale of its Peruvian field marketing business to acquirers Grupo Repsol in a \$36.6 million deal which closed in October 2006.

Other M&A saw the firm counselling Bank of Nova Scotia in a follow-up to the \$600 million acquisition of Banco Wiese and Banco Sudamericano. Scotiabank joined the two operations in a \$500 million merger in June 2006.

The firm continues to shine at project finance despite the relative lack of activity in this practice area in Peru. Payet Rey Cauvi found a role in the \$247 million financing of Constructora Norberto Odebrecht's Olmos irrigation project. The firm advised Banco de Crédito, the bank placing the financing. At the time of this writing, Payet Rey Cauvi was also advising foreign investors on the development of a \$285 million energy generation project and on a \$150 million mining project.

Leading lawyers

Juan José Cauvi
José Antonio Payet
Eduardo Vega

Rebaza Alcázar & De Las Casas

The firm that was founded in 2004 as Rebaza & Alcázar Abogados expanded in August 2006, when distressed-companies specialist Gonzalo De Las Casas joined the firm. The firm's new name is Rebaza Alcázar & De Las Casas Abogados Financieros, and it has 24 associates plus five partners. The firm has already established itself as a solid player in the financial legal markets, and is looking to grow into new areas.

One new aspect of the Peruvian capital markets is the emergence of activity among small- to medium-sized companies. These smaller businesses are tapping into the markets in their need for financing. Rebaza Alcázar has been active in this area of the debt markets, helping smaller companies raise money, mostly through the placement of commercial paper.

In 2006, the firm represented chocolate makers Miski in a \$4 million offering, manufacturers Metalpren in raising \$2 million, and helped Banco Continental as the underwriter for a placement of \$10 million for Universal Textil – all through commercial paper offerings. In a more traditional capital market transaction, the firm advised Cementos Pacasmayo in a May 2007 bond offering for \$25 million.

Rebaza Alcázar continues to enhance its reputation in the M&A field. In the vital fishing industry, the firm participated in the sale of Alexandra Group to China Fishery for \$113 million. This October 2006 deal was important for two reasons. First, the Chinese

are not traditional investors in Peru, and this deal allowed Chinese investors to test the waters; subsequently Chinese companies have bought into other industries in Peru. But even more importantly, the deal established a new benchmark for valuating Peruvian fishing companies. Storage capacity and fish processing are the criteria used in these deals, and the price of a company nearly doubled, from \$7000 per ton to \$12,000 per ton, after the Alexandra sale.

Another important fishing industry sale was the acquisition of Rebaza client Jadran by Pesquera Nardai, a subsidiary of one of Peru's largest fishing companies, Copeinca. This was a \$29 million sale financed by International Investment Group, a New York fund. Foreign participation in Peruvian fishing companies is becoming a significant trend.

Although project finance has not been an active area recently, it is expected to become important very soon. The port of Callao is the country's most important international shipping facility. The government wants to make improvements so that Callao can compete with the deep-water ports in Chile. A trust of \$144 million (which has since increased to more than \$200 million) was created to allocate funds to Dubai Ports, which has won the concessions to make improvements. Rebaza Alcázar is the adviser to the port authority.

Considering the accomplishments of this three-year-old firm, the expectations to reach the highest rankings appear well founded. This is definitely a firm to track for the future.

Leading lawyers

Rafael Alcázar
Juan José Cárdenas
Gonalo De La Casas
Alberto Rebaza

Rodrigo Elías & Medrano

The only Peruvian firm other than Estudio Echecopar with a top-ranked presence in all practice areas, Rodrigo Elías & Medrano represents local and international clients, and it is a rare deal of any importance that does not involve this practice. Summing up the consensus, one rival partner said: "I personally think that Rodrigo is in a league of its own. It has the size, the clients, and the brand over everyone else. They will consistently be in the top tier, adding value to corporate transactions."

With little activity in the equity markets in general, Rodrigo Elías successfully concentrated on the debt markets. The firm completed its work with Cerro Verde, the Phelps Dodge-owned mining project in southern Peru which started in 2005. The \$850 million financing for pit expansion was completed in 2006,

with a \$250 million bond offering. The entire deal is considered an example of the country's resurgence in its financial markets and for the economy as a whole.

A similar deal was the financing work done for Minera Yanacocha, one of the largest gold mines in the world – and reputed to be the most profitable. Rodrigo Elías client Banco de Credito del Perú put together a \$200 million bond offering for the mine. This offering had been preceded by a \$100 million syndicated loan facility, also led by Banco de Credito, for Yanacocha. Besides the size of the financing, the significance lies in the fact that the entire amount was raised in the local markets, again signalling the growing strength of Peru as a financing hub. The firm also participated in several \$100 million-plus bond offerings, representing underwriters and issuers alike throughout the year.

On the M&A side, Rodrigo Elías again led the way with deals that were either large, significant or both. The acquisition of Grupo Sipesa by its client Tecnologica de Alimentos (Tasa) is an example of the latter. The \$240 million purchase by Tasa created the largest fishmeal producer in the world. The value of the deal was large by local standards, and created a world leader in a vital industry in the process.

The firm represented Mexichem in a cross-border deal, acquiring Brazilian pipemaker Amanco. Rodrigo Elías advised the Mexican chemical company in the Peruvian segment of the region-wide \$600 million deal.

The deal that best exemplifies Rodrigo Elías's leadership status was its representation of Dubai Ports and Uniport in their winning bid for the concession to develop the deep-water port at Callao. The winning bid was for \$144 million, but the total value of the project is projected to reach \$617 million. This project is important for the country's long-term economic future, as its lack of sufficient port facilities causes maritime business to head south to Chile instead.

Perhaps these deals explain why a partner at another firm said: "My gut feeling is that they are always the best firm in Peru."

Leading lawyers

Jean Paul Chabaneix
Luis Carlos Rodrigo Prado
Julio Salas
Gino Sangalli