El Salvador

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Evolution of the financial system

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During the end of the 1980s and early 1990s, substantial reforms were enacted in El Salvador, all of which have contributed to the consolidation of a fairly developed and modern financial system in the country. Such reforms included (i) the reorganization of the Salvadoran Central Reserve Bank (BCR), among others, to control inflation, preserve the internal and external value of the local currency and maintain adequate levels of liquidity; (ii) the regulation of all financial institutions (for example, unregulated credit institutions were forced to convert into fully regulated members of the financial system); and (iii) the privatization of local banks.

As a result of such initial reforms, and of most recent reforms that have come along since then, El Salvador's financial system has been able to maintain stability and steadied growth for the past half-decade.

At present, entities participating in the local financial system include privately-owned commercial banks, branches of foreign banks, non-banking financial intermediaries, state-owned banks, public credit institutions, a state-owned mezzanine bank, a reciprocal guaranty institution, insurance and reinsurance companies, private pension funds, financial leasing companies, factoring companies, bonded warehouses, brokerage/dealer firms and the stock exchange. Each of such participants – and their activities – has a particular regulation, which explains why El Salvador has extensive legislation in this sector.

The banking sector

As a result of a national financial crisis during 1997, Congress passed in 1999 modern but restrictive new banking legislation, which provided for greater protection to depositors by creating stricter capital and risk management requirements, granting broader authority and supervising powers to the local regulator (the Superintendence of the Financial System (SSF)), and by improving compliance with Basel standards. El Salvador's present banking legislation regulates the financial intermediation by banks, their organization and operation requirements and standards, as well as their insolvency and reorganization processes.

At the time of writing, privately-owned commercial banks, foreign bank branches, state-owned banks specializing in agricultural and housing incentive credits and a mezzanine bank (Banco Multisectorial de Inversiones) operate in El Salvador.

Lately, some of the largest and most relevant mergers and acquisitions in this country have involved banking sector entities.

Non-banking financial intermediaries

Non-banking financial intermediaries are also contemplated by local law. These entities have been created with the purpose of facilitating the financial intermediation to specific financing vehicles not willing or able to create a bank, and to improve financing opportunities available to individuals and small business units. These financial intermediaries consist primarily of cooperative/credit unions (entities constituted to provide financial services to their members), federations (organizations of cooperatives engaging in the same type of financial activity that provide assessment and technical assistance services to their member cooperatives) and savings and loans associations (non-governmental financial entities that can take deposits from the general public and make loans). These intermediaries are also supervised by the SSF.

Securities and capital markets

Public offerings of securities and their trading, and public issuers and their issuances are regulated by the Salvadoran Securities Market Law and other complementary legislation, and are subject to certain local registration requirements. Private offerings are exempt from such regulation and from local registration requirements.

Foreign securities issued by Central American states or their central banks, and/or by certain regional or international financial organisms, may be subject to registration and negotiation in the local stock market, or approval by the local regulator – the Securities Market Superintendence (SMS). A simple certification from the foreign stock exchange that originally listed the securities, or a copy of the securities' issuance authorization, are the basic requirements that need to be met to register such foreign securities locally.

Foreign securities issued by other foreign states or their monetary-policy management organisms, and/or by foreign public or private entities or financial institutions, may also be subject to registration and negotiation in the local stock market or approval by the SMS, provided that (i) such securities are duly registered with a foreign stock market regulator and/or are traded in a duly organized foreign securities' market, (ii) information concerning such securities is available in capital markets' systems acknowledged by the SMS, and (iii) the securities come from a jurisdiction that has a duly organized stock market with similar or superior supervision requirements to those in force and effect in El Salvador.

To obtain approval from the SMS, among other general requirements, (i) the brokerage firm seeking to locally trade the foreign securities must provide evidence of having sufficient resources to keep prospective investors duly informed; and (ii) local and foreign custodians shall have entered into agreement(s) that provide for the appropriate custody of the foreign securities for which trading is sought in El Salvador, and for the terms and process of the transaction's settlement. Further, brokerage firms are required to issue daily updates to the SMS in connection with the public trading of foreign securities.

The Salvadoran stock exchange, which has been operating for more than a decade, lists 45 private companies, four public institutions and 16 international entities, sovereign states and foreign central banks. However, to date, public offerings and trading of securities in the local market has been relatively limited, where the Salvadoran state, some commercial banks and a handful of private companies have acted as issuers.

During the period 2004-2006, the Republic of El Salvador issued around $1.1 billion-worth of public debt in the form of notes to be traded in the national and international markets. The offerings have received reasonable ratings (Baa3/BB+) and were placed in record time in the international markets, and were over-subscribed by an average of 500%.

The Salvadoran government is in discussion to introduce regulation governing, among other things, securitization activities and the operation of investment funds.

Proposed merger of regulatory authorities

A bill has been passed to Congress – and is under discussion at the time of writing – for the unification of all existing supervisory and controlling entities of the local financial system (the SSF, the SMS and the PS) into a single entity. This proposed regulation aims to standardize supervision and control mechanisms and centralize information, thereby allowing a more consolidated supervision of the entire financial system.

Current investment conditions

A US dollar economy, limited trade barriers in the region, ongoing modernization of roads and ports, advanced communications and technology, and one of the leading financial systems in the region create favourable conditions for investing in El Salvador. Several key laws have been enacted in the country to stimulate investment, including the Investment Law (which provides, among other things, for the free repatriation of investment funds and any other payment from legal investment activities in the country), the Industrial and Commercial Free Trade Zones Law (which allows for the establishment and operation in free trade zones of both national and foreign entities – with sizeable tax exemptions), as well as modern and updated intellectual property and antitrust legislation. During 2005 and 2006, Congress enacted (i) a new Consumer Law, to strengthen consumer protection policies and reinforce the regulatory authority's control and supervising faculties, and (ii) the first Antitrust Law. Several tax reforms have also been enacted, principally to close tax loopholes and fight tax evasion.

Also, the Central American and Dominican Republic Free Trade Zone Agreement (Cafta-DR) is now in effect between El Salvador and the United States of America. This agreement will cause the elimination or significant reduction of custom barriers with the US, and will of course provide other social, labour and economic benefits to El Salvador.

Corporate and commercial

Recommended firms
Tier 1
Arias & Muñoz
Consortium – Delgado & Cevallos
Guandique Segovia Quintanilla
Tier 2
Aguilar Castillo Love
Espino Nieto & Asociados
Rusconi Vlez Medina & Asociados

Arias & Muñoz

Having held congressional elections in March and with Cafta-DR not yet approved by all the countries in the Central American region, there has been some degree of standby in the decision-making process, as well as in the implementation of projects in El Salvador. Nevertheless, Arias & Muñoz has managed to scoop roles on a large majority of the big-ticket deals that have made it to market. Market commentators variously decided that "the service provided by Arias is excellent," calling it "a great firm with an excellent track record".

The past year has seen Arias & Muñoz advise on a slew of mergers and acquisitions transactions. For example, the firm acted as local counsel to Grupo BAC in relation to the sale of an interest of 49.99% to a party related to the GE Corporation, and serve as local counsel to the controlling shareholders of Inversiones Financieras on the $140 million sale of a majority interest in the Salvadoran financial conglomerate to Grupo Banistmo. The practice also offered its services to Cemento de El Salvador in the acquisition of a Salvadoran concrete manufacturer, Mixto Listo.

Further significant transactional work saw the firm advise Deutsche Bank in its capacity as lead manager of a $375 million bond issue by the Republic of El Salvador, and Citibank turned to the firm for advice in relation to a credit loan for $80 million granted to the Amzak Corporation.

The firm is a member of Interlaw, an international association of 64 independent law firms with 5,000 attorneys in 120 cities worldwide.

Leading lawyers	Key contact partners
F Armando Arias	F Armando Arias
Zygmunt Brett	Zygmunt Brett
Lillian Zelaya	Roberta Gallardo
	Julio Valdes
	Lillian Zelaya

Consortium – Delgado & Cevallos

In the last edition of the *IFLR1000* it was noted that Delgado & Cevallos had just signed up to be one of five leading Central American firms to join together to create one regional firm – the largest grouping in the region. The benefits of the alliance were not yet fully visible in the previous edition, but one year on it is clear that the regional alliance is taking a firm grip on Central America, one client noting that the firms provide a "good service and a good network in the region."

The El Salvadoran branch of the alliance won a plum role advising Credit Suisse First Boston when the international investment bank lead managed a $300 million bond issue by AES, guaranteed by electrical distributing companies of El Salvador. This was a landmark transaction for the country in that it represented the first issue by a private company to be syndicated in this way from Central America; Ricardo Cevallos and Beatriz Beltranena ran things from Consortium's end.

Elsewhere, Delgado & Cevallos also advised Wachovia Bank in relation to the launch of Bastimo's public tender process for the acquisition of the majority of the shares of Inversiones Financieras Bancosal. At the time of writing, Consortium was on hand to advise the Mexican-Japanese company Arnecom when it made an aggressive investment of an acquisition of land in El Salvador to start up its operations there. The deal was yet to close at press time.

Other notable clients of the firm include Payless Shoesource, Avery Dennison, Johnson & Son, Oceanic Digital Communications and Standard Bank London.

Leading lawyers	**Key contact partner**
Ricardo Cevallos	Ricardo Cevallos
Aquiles Antonio Delgado	
Omar Ivan Martinez	

Guandique Segovia Quintanilla

Rounding out the top tier, Guandique Segovia Quintanilla is one of the best-established firms in El Salvador. Formed in 1972, it is also one of the biggest, with ten partners handling the full range of corporate and commercial work. The firm gains promotion in the rankings this year after recommendations to that effect from peers and clients.

Examples of recent work include advising CreditQ Inversiones on its two-tranche $20 million securitization, acting for Citibank, Scotia Bank & Trust (Cayman) and ABN Amro when they forwarded a $50 million syndicated loan to Telemovil El Salvador, and represented Wachovia Capital Markers and Wachovia Bank on Banco Salvadoreno's $100 million DPR funding, issued in two tranches of floating-rate notes.

The firm benefits from strong relationships with a wide range of international law firms, including Clifford Chance, Shearman & Sterling and Milbank Tweed Hadley & McCloy. Such relationships place the firm in a strong position when it comes to those firms seeking local counsel through existing referral networks.

Leading lawyers	**Key contact partners**
Luis Ernesto Guandique Mejía	Luis Ernesto Guandique Mejía
Carlos Quintanilla Schmidt	Carlos Quintanilla Schmidt
Luis Nelson Segovia	Luis Nelson Segovia

Aguilar Castillo Love

Having started life in Costa Rica and Guatemala in the 1960s, Aguilar Castillo Love now has offices across the Central American region, in Costa Rica, Guatemala, Nicaragua and Honduras, as well as El Salvador. The two-lawyer San Salvador operation makes its debut appearance in the rankings this year, after multiple recommendations from rival practitioners and market commentators. The main areas of expertise offered by the firm are in the areas of public debt, Salvadoran transfer restrictions, taxation and sovereign immunity.

Recent highlights have seen the firm advise the Medicine Trademark Registry in the national Intellectual Property Office, assisting Cinfa Laboratories with the registration of medicines in the Public Health Registry, and acting for Ingenio El Angel.

Leading lawyer	**Key contact partner**
Francisco José Barrientos	Francisco José Barrientos

Espino Nieto & Asociados

According to one client, Espino Nieto & Asociados is "a very good firm" and boasts "excellent lawyers". The firm has certainly coped well with last year's departure of partner Felipe Francisco Umaña, and its ten lawyers have continued to win work on some good deals. From the team, Rafael Mendoza and Pedro Mendoza – the latter of whom joined the firm as a partner in March 2006 – were frequently picked out, one, client calling them "extremely strong lawyers."

Espino Nieto is especially strong on the finance side and two partners and one associate take care of this work. In one standout banking mandate, which closed in December 2005, the firm acted for Duke Energy International in relation to a $100 million working capital loan granted to it by Citibank, Banco Cuscatlán and Banco Salvadoreño in favour of its operations in El Salvador and Guatemala. In a notable structured finance deal, meanwhile, the firm also advised Citibank on a securitization with Banco Cuscatlán.

Leading lawyers	**Key contact partner**
Luis Miguel Espino	Rafael Mendoza Calderón
Pedro Mendoza	