

# Honduras

**Chamber of commerce:**

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Honduras is definitely entering a new era in corporate financing, with the creation of a modern Securities Market Law. Under the old system, the securities market was uncontrolled and many companies without financial backing obtained millions of US dollars from investors who were attracted by higher interest rates but who suffered losses after those companies were unable to honour repayment requirements at maturity. Some participating companies managed to offer promissory notes at interest rates higher than those paid by banks for deposits, even though those companies, left unsupervised, were not meeting the legal requirements enabling them to do so. For example, while a company could qualify at the stock exchange market with a debt-capital ratio of five to one, some companies were still collecting funds through this mechanism with a debt-capital ratio of 60 to one. New loans obtained served only to make interest payments in respect of the first batch of loans, and so on. It naturally reached a point where hundreds of investors lost all their funds.

In an effort to restore public faith in these kinds of transactions, a new law was promoted and has been brought into effect – the Securities Market Law (the Law) – whereby the public offering of securities is now adequately supervised and controlled by the same entity that regulates the entire Honduran banking and insurance system: the National Banks and Insurance Companies Commission (the Commission). The Law was enacted in 2001 and has been complemented by special regulations prepared by the Commission. These regulations refer to specific provisions in the law, clarifying it and defining in detail the set of applicable rules. For example, the law determines that participating companies, such as issuers of securities, must prepare reports that have to be rendered to the Commission. This means that there is regulation of information, as well as a procedure for the supply of information of the participants of the securities market, which complete the applicable terms of the law under which these reports have to be prepared, and which set out the specifics of their contents as well as the periodicity in which they have to be turned in.

Recently the Commission has issued two new regulations, regarding: (i) the organization and activities of the corporations that are issuers of securities and of securitizations; and (ii) public offerings.

The Law states that a company can voluntarily seek registration at the Commission to be able to offer securities to the public through the Honduran securities market (private offerings are treated separately). Even though the Law refers to voluntary registration, in reality only some issuers have obtained their registration and no registrations of public offerings of securities have been applied for.

Under Article 4 of the Law, a public offering is defined as when any kind of securities are issued, allocated, negotiated or traded and this offering is transmitted to the public or to specific groups through the media. Article 5 states that when a public offering is intended, the securities and the issuer must both be registered in the public registry of the securities market, established by the Law and overseen by the Commission. As indicated, to date only issuers have requested and obtained their registration, but no financial instrument or derivative has yet been approved. The Law determines that the registration process should be completed within a 30-day period, but we are unable to verify if this deadline has been met.

A company that wants to make a public offering of securities must file a petition at the Commission. The issuer must also supply all relevant information pertinent to it, including details regarding administrative, employment, legal, economical, financial and contingent liabilities according to generally accepted accounting principles, all in the detail incorporated in the regulations. The amount and precise nature of the information depends on the characteristics of the issuer and of the securities being offered.

Once the issuer and the securities are registered, the issuer must prepare a prospectus relating to the offer. The prospectus must contain all information relating to the offer and the securities, as well as all relevant information regarding the issuer. This information includes the name and identification of the company and its line of business, the name of its administrators, if it has any business group interests, financial statements, external auditors' opinion and the risk classification of the securities to be offered.

If the securities in question are company stock, the public offering is subject to the approval of the Commission. After revising the legal aspects surrounding the securities market, and the scope of issues now subject to new regulations, the confidence of the public should soon be obtained, and hopefully there will be an increasing number of filings for the registration of issuers as well as securities. Investments in Honduras

are still on the rise, particularly in the electrical and communications sectors, where long-term financing is required. The country will once again be able to promote investment through these types of corporate financing transactions. The reaction of the market will be positive, because the supervision to which these investments are now subject should go a long way towards preventing the abuses of the past.

## Corporate and commercial

### Recommended firms

Tier 1

**Bufete Gutiérrez Falla**

**Consortium - JR Paz & Asociados**

**López Rodezno & Asociados**

Tier 2

**FA Arias & Muñoz**

**Bufete Batres y Asociados**

**García & Bodán**

**Bufete López Castro**

**Ortez Sequeira & Associates**

### Bufete Gutiérrez Falla

This five-lawyer firm was founded in 1974 and has offices in Tegucigalpa and San Pedro Sula. Its principal areas of expertise are banking, mining and energy, corporate law, contracts and civil litigation. Interviewees comment that Gutiérrez Falla is “the quintessential law firm,” but is undergoing “considerable internal changes because of a generational gap”. At the moment this does not seem to be having a negative effect on the firm’s standing in the market, and it will be interesting to see how the firm emerges once the new personalities make their mark.

Harvard and Havana-educated Laureano Gutiérrez Falla spearheads the firm. He is a member of the International Bar Association and the American Society for International Law, and has published several books on Honduran corporate legislation.

The firm’s clients include Microsoft, Deutsche Bank, Warner Lambert, Nabrisco and AT&T. Bufete Gutiérrez Falla is the Honduran member of the international network of independent law firms Lex Mundi.

#### Leading lawyer

Laureano Gutiérrez Falla

#### Key contact partner

Laureano Gutiérrez Falla

### Consortium - JR Paz & Asociados

“A mid-sized firm with a respectable track record,” JR Paz is the largest law firm in Honduras, with seven partners and five associates. It deals mainly in corporate and commercial law. The firm recently advised Dole Fruit in relation to financing a fruit farm, and acted for local power network Enersa on the restructuring of its debt.

Senior partner José Ramón Paz is considered excellent in banking, corporate, and international business law, and has “wide market recognition”. José Rafael Rivera Ferrari, meanwhile, is described as “a very up-and-coming lawyer”.

JR Paz’s client base is mainly central American in scope, although it does advise some notable international institutions such as Hewlett-Packard, Gap, Phillip Morris, Ernst & Young and Daimler-Chrysler. The firm bolsters its international networks through its membership of Tag Law, the World Services Group and Latin Lawyer.

JR Paz & Asociados is one of five leading central American firms that have joined together to create one regional firm, known collectively as Consortium.

#### Leading lawyers

José Ramón Paz

José Rafael Rivera Ferrari

#### Key contact partner

José Ramón Paz

### López Rodezno & Asociados

A traditional firm with an outstanding reputation, López Rodezno is based in the Honduran capital of Tegucigalpa, with subsidiary offices in San Pedro Sula and Choluteca.

López Rodezno’s main strength is in litigation, but it also advises regularly on M&A, joint ventures, privatizations and project finance deals. It has recently undertaken a great deal of consultancy work for the government. In May 2005, the firm advised GE Financial in relation to its acquisition of 49.99% of BAC International, the licence issuer for Amex and Visa cards in central America, for \$500 million. Other deals included representing European companies in joint ventures related to the sale of gas for domestic consumption and the installation of a cellular phone system; acting for a US corporation to develop one of the largest shrimp culture operations in Latin America; and providing counsel to an international bank lending \$55 million to a central American industrial conglomerate.

The leading partner at the firm is René López Rodezno, a corporate and banking specialist who has been with the firm since 1966. His four decades of experience are without doubt a major draw for clients.

Among the firm’s international clients are US Tobacco, KLM, Benetton and Budget Rent a Car. López Rodezno is a member of law firm association Club de Abogados.

#### Leading lawyer

René López Rodezno

#### Key contact partner

René López Rodezno

### FA Arias & Muñoz

FA Arias & Muñoz has offices throughout central America, with the Honduran offices in Tegucigalpa and San Pedro Sula being the latest addition to the regional network. The firm is well

regarded in energy, banking, corporate and securities law throughout the region, and has brought this expertise to Honduras with considerable success.

Last year FA Arias & Muñoz provided local counsel to Citibank, the Central American Bank and various other lenders on the largest syndicated loan in Honduran history, worth \$119 million, granted to regional energy company Enersa. In October 2004 it closed two high-profile deals, representing Lafarge and Incehsa concerning the acquisition of a cement plant, and acting for Banco Cuscatlán on its purchase of assets from the Honduran branch of Lloyds TSB. At the time of writing, the firm is consulting the Inter-American Development Bank regarding a \$34 million airport finance project.

Dennis Matamoros Batson is the firm's main finance partner, and was involved in all of the above deals. FA Arias & Muñoz also recently added Evangelina Lardizábal to the partnership. Lardizábal joined the firm as an associate in 2002.

#### **Leading lawyer**

Dennis Matamoros Batson

#### **Key contact partners**

Dennis Matamoros Batson

Evangelina Lardizábal

German Martell

#### **Other notable firms**

**Bufete Batres y Asociados** is led by former minister of foreign affairs Cesar Batres. Although Batres is an experienced negotiator for international clients such as IBM and Citibank, some market commentators expressed concern that the firm might be "starting to suffer from a generational gap" and an intake of smart young lawyers might be a prudent step to help the firm to maintain its status. For the time being, though, the firm remains a solid choice for corporate and commercial advice in Honduras.

**García & Bodán** was founded in Nicaragua and opened its Honduran office in 2004. The Tegucigalpa office contains four talented young lawyers specializing in corporate, intellectual property and telecommunications law. The firm already counts America Movil and Continental Airlines among its clients, and has advised in a series of industrial and telecommunications acquisitions deals for, among others, Carnes Procesadas Guatemala and the POMA Group. It acted for America Movil in relation to its purchase of telecommunications company Megatel, and also successfully negotiated the authorization of a Panamsat satellite signal landing in Honduras.

**Bufete López Castro** is a small but respected firm that advised on the development of the first energy plant in Honduras to produce energy through burning sugar cane refuse. And Enrique Ortez Sequeira is the main practitioner at **Ortez Sequeira & Associates** but, as he is running to be mayor of Tegucigalpa at the time of writing, interviewees report that his visibility on high-profile transactions might drop.