

Nicaragua

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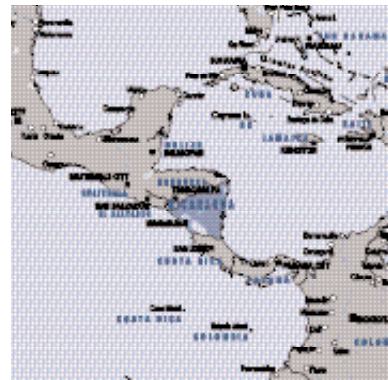
Capital markets in Nicaragua

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The Nicaraguan stock exchange

The stock exchange (Bolsa de Valores de Nicaragua) was founded in December 1993, with the first transactions being executed on January 31 1994. It is organized as a private corporation, founded by most of the existing private and public banks and by wealthy corporates representing various sectors of the economy.

In 2003, a total of eight brokerage houses (*puestos de bolsa*) executed about C\$8.4 billion (\$557.5 million) of trades. Public sector securities represented 96% of the total transactions executed. It is not expected that this ratio will change dramatically in the near future, although it is likely that more private corporations will begin to raise capital through initial public offerings (IPOs.) Options represented 53% of the securities traded, while IPOs represented 20% of the total market volume.



Market supervision

The Superintendencia de Bancos y Otras Instituciones Financieras (Superintendencia de Bancos y Otras Instituciones Financieras, the Superintendencia) is the body that regulates and controls the securities market. The Superintendencia may formulate such regulations it deems appropriate to guarantee the transparency of the market.

The Superintendencia has the following functions regarding the markets: (i) to authorize the creation of a stock exchange; (ii) to register the issuers of securities that comply with the relevant legal requirements; (iii) to register the securities to be traded on the stock exchange; (iv) to control the transparency and the accuracy of the information in the stock exchange; (v) to enforce all the rules and regulations related to the stock exchange and the trading of securities; (vi) to impose sanctions for violations of the law or the rules and regulations of the Superintendencia; and (vii) to resolve any conflicts that may arise between the stock exchange, the brokerage houses, brokers, issuers and the buyers of securities.

The Superintendencia can cancel the registration and prohibit the trading of a security on the exchange if: (i) the registration has been obtained through false statements; (ii) during the time of the public offering the registrant delivers false information to the stock exchange, the brokers or the Superintendencia; (iii) during a public offering the issuer delivers false information, or does not reveal information that may affect the price of the securities; (iv) the security does not comply with the requirements for registration; or (v) the rights contained in the security have been extinguished completely.

The draft of the new Capital Markets Law grants to the Superintendencia additional powers relating to the contemplation of securitization structures. Firstly, the Superintendencia will be responsible for control and supervision of securitization transactions. The

Superintendence will also be responsible for authorizing the creation of all securitization funds and approving each prospectus relating to a securitization before any public offer is executed.

The growth of capital market activity

Even though the volume of securities transactions in Nicaragua has been rather small compared to other countries, an increase is expected over the coming years. Between 2004 and 2005, two events are expected to develop capital markets activity: the introduction of a new pension system and a new Capital Markets Law, expected to take place in late 2004 or early 2005.

New pension system

Following the implementation in Chile of an individual capitalization system, laws have been approved to introduce a new system in which each worker will deposit part of his or her salary to finance his or her retirement pension.

The funds will be managed by pension fund administrator corporations. The law dictates that at least 70% of these funds must be invested in the Nicaraguan stock markets. Up to 30% of the funds can be invested abroad. The new laws allow these funds to be invested, among others, in securities backed by financial institutions, investment certificates of public and private entities, securities issued to finance housing investments backed by mortgages, and foreign securities.

It is expected that the new pension system will help make the Nicaraguan capital markets much more dynamic, creating the incentive to increase the number of securities issued.

New Capital Markets Law

A new Capital Markets Law – the first one in Nicaraguan history – is being considered by the legislative branch of the Nicaraguan national assembly.

In accordance with modern capital markets laws in other countries, the legislation will regulate primary and secondary market activities, stock market activity and supervision by the Superintendence, securities, public offers, investment funds, brokerage activity and classification of risk.

The new legislation includes a special chapter on securitization. The legislation defines securitization as a process by which an entity (called the originator) removes from its balance sheet a group of loans, credits or other assets capable of generating cashflows that are subject transfer to a fund (the securitization fund) created to receive them and to issue new securities. Only banks, financial corporations and other entities authorized by the Superintendence will be able to act as originators.

Securitization fund administrators are special corporations set up to manage the securitization funds that are created. These funds must be created by public deed in which the assets covered by the securitization are described, and are subject to the approval of the Superintendence. Securitization transactions will be under the surveillance of the Superintendence, which will have control over the issuers, securities and institutions that take part in each securitization.

The new Capital Markets Law is scheduled to be approved in early 2005 at the latest.

It is expected that both the new pension system and the new Capital Markets Law will lead to an increase in the number of securities offerings, while at the same time bringing the legal framework for securitizations in Nicaragua right up to date.

Corporate and commercial

Recommended firms

Alvarado y Asociados

Barrios y Asociados

Delaney & Associates

F A Arias & Muñoz

Munguia Vidaurre Chavez

Taboada y Asociados

Alvarado y Asociados

Alvarado y Asociados has been operating for 15 years and is perceived by the market to be “active on transactional matters.” Senior partner Jose Antonio Alvarado is a leader in the market for his advice on corporate and commercial matters. He and his team of four lawyers advise national and international entities on a range of issues, including privatizations. The firm is a member of the international legal network Lex Mundi.

Leading lawyer

Jose Antonio Alvarado

Delaney & Associates

Delaney & Associates was established in 1997 and is one of the firms in Nicaragua that is known for its “high-quality advice”. Tomas Delaney is singled out as one of the country’s best corporate and commercial lawyers. The firm’s 10 lawyers advise foreign investors and companies with interests in Nicaragua. Clients include Heinz, General Motors, Banco Centroamericano and Itochu Corporation.

Leading lawyer

Tomas Delaney

F A Arias & Muñoz

Originally established in El Salvador in 1942, F A Arias & Muñoz now has offices in Nicaragua, Honduras, El Salvador, Guatemala and Costa Rica, making it one of the region’s leading law firms advising on corporate and commercial matters. The Nicaraguan office is managed by Carlos Conrado Cabrera, who works alongside one other partner and four associates. In August 2003 the firm’s capacity was

dealt a slight blow with the departure of Ana Teresa Rizo Briceño, who left to study for her LLM at Cornell university in the US.

However, this does not seem to have affected the firm's flow of deals over the past year, and this dealflow, combined with many recommendations from the market, more than supports the firm's first-time ranking this year. In July 2003, before her move to the US, Ana Teresa Rizo Briceño led a team that advised FMO on a \$30 million loan agreement executed by FMO and Enitel in connection to investment into mobile telephones. The following month Cabrera acted for Corporación de Supermercados Unidos on its \$10 million acquisition of Supermercados La Fe, and at the end of 2003 the firm advised Hencorp Becstone Capital on a loan agreement executed by Hencorp Becstone Capital and Enitel for the modernization of the telephone system. At the time of writing the firm is advising San Jacinto Power on a \$100 million syndicated loan agreement granted to it by the Standard Bank in respect of a geothermic energy generation project.

Key contact partner

Carlos Conrado Cabrera

Munguia Vidaurre Chavez

An experienced firm renowned for its "quality service," Munguia Vidaurre Chavez advises on corporate issues for both domestic and international entities and is known for its telecommunications expertise. Noel Vidaurre Arguello is a leader in his field.

Leading lawyer

Noel Vidaurre Arguello

Taboada y Asociados

Taboada y Asociados is one of the biggest and most accomplished law firms in Nicaragua and has been a force in the country's legal market since 1969. A staff of 40 includes 20 lawyers. Head of the corporate and commercial department Rodrigo Taboada Rodríguez provides advice to large domestic and international companies on different commercial transactions, including structured finance and securitization operations. Fellow partner José Evenor Taboada was singled out for praise by his peers.

An impressive client list includes Banco Aliado, Caterpillar America, Cisa Exportadora Construmarket, Embajada de Inglaterra en Nicaragua, General Electric, Grupo Q Nicaragua and Distribuidora de Electricidad del Norte.

Leading lawyers

Rodrigo Taboada Rodríguez

Jose Evenor Taboada

Evenor Taboada