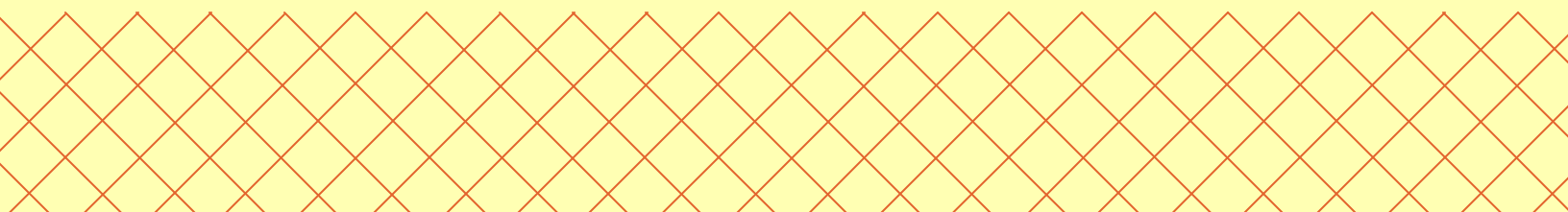


WESTERN HEMISPHERE PAYMENTS AND SECURITIES CLEARANCE
AND SETTLEMENT INITIATIVE
CENTRE FOR LATIN AMERICAN MONETARY STUDIES
THE WORLD BANK

**PAYMENTS AND SECURITIES
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SETTLEMENT SYSTEMS
IN VENEZUELA**

DECEMBER 2002



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Foreword

Following a request from the Western Hemisphere Finance Ministers, the World Bank (WB) launched in January 1999 the *Western Hemisphere Payments and Securities Clearance and Settlement Initiative*. The World Bank in partnership with the Centre for Latin American Monetary Studies (CEMLA) leads this initiative. Its objective is to describe and assess the payments systems of the Western Hemisphere with a view to identifying possible improvement measures in their safety, efficiency and integrity. To carry out this mandate an International Advisory Council (IAC) was established in March 1999 comprised of experts in the field from several institutions. In addition to representatives from the WB and CEMLA this Council includes members from the: Bank for International Settlements, Bank of Italy, Bank of Portugal, Bank of Spain, Council of Securities Regulators of the Americas (COSRA), De Nederlandsche Bank, European Central Bank, Federal Reserve Board, Federal Reserve Bank of New York, Inter-American Development Bank, International Monetary Fund, International Organization of Securities Regulators (IOSCO), Securities Commission of Spain, Swiss National Bank and U.S. Securities Commission (SEC).

To assure quality and effectiveness, the Initiative includes two important components. First, all studies are conducted with the active participation of country officials and the project builds on the existing work being undertaken in the respective countries. Second, the Initiative draws on international and national expertise on the subject, through the IAC, to provide guidance, advice and alternatives to current practices.

The Initiative has undertaken a number of activities in order to respond to the Western Hemisphere Finance Ministers' request. These include: the preparation of public reports containing a systematic in-depth description of each country's payments clearance and settlement systems; the delivery of recommendations reports to country authorities on a confidential basis; the organization of IAC meetings to review country studies and provide input for future work; the organization of workshops focusing on issues of particular interest; the creation of a web-page (www.ipho-whpi.org) to present the outputs of the Initiative and other information of interest in the payments systems area; and the promotion of working groups to ensure a continuation of the project activity.

CEMLA has been acting as Technical Secretariat of the Initiative and is playing a major role in making the process sustainable and capable of extension to all the countries in the Hemisphere. To this end, the Initiative has helped strengthen CEMLA's in-house expertise. Additionally, practitioners in payments and securities clearance and settlement in some countries in the Region have participated in the studies under the Initiative, through CEMLA coordination, and this has contributed to the broadening of knowledge and the transfer of know-how within the Region. The endeavors of the working groups in coordination with CEMLA will maintain the infrastructure created under the Initiative and provide a permanent forum for the countries in the Region to discuss, coordinate, and add a collective impetus to the work in the area of payments and securities clearance and settlement systems.

This Report "Payments and Securities Clearance and Settlement Systems in Venezuela" is one of the public reports in the series and was prepared under the coordination of CEMLA and the World Bank. The *Banco Central de Venezuela* and the *Comisión Nacional de Valores of Venezuela* also participated actively in its preparation.

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This Report is based on the findings of a mission that visited Caracas in November 2002, and which was comprised of two teams who worked on a coordinated basis in the payments and securities clearance and settlement area. The Report was prepared under the coordination of José Antonio García (CEMLA and WGPS-LAC). Other members of the international team were Rubén Berti (Banco Central de la República Argentina and WGPS-LAC), Massimo Cirasino (World Bank), Belén García-Olmedo (Comisión Nacional del Mercado de Valores of Spain), Mario Guadamillas (World Bank) and Francisco Linares (Banco de España). The international team focusing on payments worked closely with the local team formed by officials of the Central Bank of Venezuela (Banco Central de Venezuela, BCV). The securities team coordinated its work with the local team formed by officials of both the BCV and the Comisión Nacional de Valores (CNV). Belkys Apolinar (Executive Adviser to the Vice-presidency of Domestic Operations of the BCV) coordinated the local teams, which also included Maximir Álvarez, Sonia Elcure and Yolanda Gomez of the BCV, and Luis Delgado of the CNV.*

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1 ECONOMIC AND FINANCIAL MARKET OVERVIEW

1.1 OVERVIEW OF RECENT REFORMS

Some of the major reforms that characterize today's Venezuelan economy go back to 1989, year in which an ambitious program of trade liberalization and dismantling of the previous system of price and interest rates controls started.

After the 1994 financial system crisis, which unfolded together with substantial capitals outflows, a foreign exchange control regime was established. This regime was abandoned by mid 1996, and a new system consisting of exchange rate bands (*bandas cambiarias*) was implemented. The latter scheme consisted of a central rate with controlled mini devaluations (*i.e.*, crawling peg), in function of an annual inflation target. This scheme was modified in February 2002 and the free flotation of the exchange rate was established.

Starting in 1999, with the approval of a new National Constitution, Venezuela started a total redefinition of its political and economic institutions. In this context, the laws that deal with economic issues have been fully reformulated following the guidelines of the new Constitution.

In this regard, the enactment of the Organic Law for the Financial Administration of the Public Sector (*Ley Orgánica de Administración Financiera del Sector Público*) has been particularly relevant for the public sector. This law encompasses issues related to the public budget, treasury and credit and aims at regulating the financial administration of the public sector within a multi-annual context, based on macro-fiscal rules that foster financial discipline.

1.2 MACROECONOMIC BACKGROUND

The Venezuelan economy is characterized by its strong correlation with the performance of the oil industry. The oil industry represents a large share of the nation's gross domestic product (GDP) and exports. Moreover, it is particularly relevant as a source of public sector revenues. The significant increase in oil prices since 1973 and until 1986 together with the development of this industry in the country during these years, led the Venezuelan economy to a path of accelerated growth, although with several macroeconomic imbalances that became unbearable by the end of the Eighties.

Thus, in 1989, in occasion of the beginning of a new government term, a macroeconomic adjustment with the support of the International Monetary Fund (IMF) was implemented. This program included measures dealing with the fiscal policies, credit expansion limits, trade and financial liberalization and the devaluation of the exchange rate by moving from a regime of differential exchange rate controls to a new free and flexible regime.

During 1989, the GDP decreased by 8.7 percent. Inflation increased significantly to 81 percent, reflecting the adjustments in prices due to the depreciation of the exchange rate. In the following

three years, however, the economy grew at an average rate of approximately 7 percent while inflation slowed down, reaching an average 33 percent per year.

The political uncertainty that characterized Venezuela between 1992 and 1993 as a result of several attempts to takeover the elected government strongly affected the economic development of the country. Inflationary pressures resumed and the evolution of the GDP became volatile, with no signs of sustained growth. The behavior of prices and of the real sector, coupled with capital outflows, resulted in a decline in the demand for money, of the monetization index, the credit/GDP ratio and the intermediation index. All these events triggered the crisis in the financial sector that emerged at the beginning of 1994.

In 1994 and 1995, the economic policies consisted in emergency measures to overcome the systemic crisis in the financial sector. In this context, characterized also by significant and continuing capital outflows, the authorities decided to re-introduce controls over foreign exchange. In April of 1996, a new agreement with the IMF was signed, with the elimination of the controls over foreign exchange as one of its most important components. The new foreign exchange policy aimed at reducing inflationary expectations by inducing the relatively stable evolution of the exchange rate. Thus, after two months of free floating, a new "exchange rate bands" system was established. Between the lower and upper bands or limits there was a central rate that would evolve in a so-called crawling peg fashion, in function of an annual inflation target.

Since 1999, the performance of the Venezuelan economy has followed the behavior of the world oil market. It has also been highly influenced by the expectations generated by the new government, which has been fostering a full redefinition of the political and economic institutions of the country.

In that year, the reduction of oil production and oil exports together with the fiscal adjustment measures resulted in a severe decline in the general economic activity and the rise of the unemployment rate. However, the substantial increase in the price of the Venezuelan oil mix partially offset the reduction in oil production and exports and, thus, had a positive effect on the fiscal and external accounts. The surplus in the current account of the balance of payments helped in creating expectations of a lower depreciation of the exchange rate, thereby inducing a sustained reduction of inflation and of interest rates.

In 2000, the GDP grew at 3.2 percent in real terms, reflecting the recovery of both the oil and non-oil sectors of the economy. Inflation continued to slow down and the current account of the balance of payments showed a surplus once again. Nevertheless, net capital outflows continued.

During 2001, the weakening of the international oil market negatively affected the economy. The fiscal accounts of the consolidated public sector moved from a surplus of 3.9 percent of the GDP in year 2000 to a 4.6 percent deficit in 2001. Lower fiscal revenues do not only explain the latter situation, but also by higher public spending. The GDP grew at 2.8 percent while inflation reached 12.5 percent.

Regarding the monetary policy, in the second semester of that year the Central Bank of Venezuela (*Banco Central de Venezuela, BCV*) adopted a more active position by inducing higher interest rates

to moderate the pressures over the exchange rate. Moreover, it increased its direct participation in the foreign exchange market.

Notwithstanding these actions, the economy experienced a severe de-monetization. As an example, the monetary liquidity showed a 7.2 percent decrease in real terms when compared to the year 2000 balance.

Table 1: Macroeconomic Indicators

	1998	1999	2000	2001	2002 ^(a)
GDP (real annual growth rate)	0.2	6.1	3.2	2.8	-8.9
Consumption (real annual growth rate)	0.1	3.2	3.9	5.0	-5.4
Gross capital formation (real annual growth rate)	-2.5	-16.4	1.1	13.6	-22.0
Imports (annual growth rate)	4.2	-10.8	5.5	-0.9	-26.7
Exports (annual growth rate)	9.4	-14.6	15.4	11.0	-7.8
Current account balance (as % of the GDP)	-3.7	4.1	12.9	3.8	7.2
Consumer prices index (average inter-annual growth rate)	35.8	23.6	16.2	12.5	22.5
Unemployment (in %)	11.0	14.5	13.2	12.8	15.7
Public Sector: Surplus (+) / Deficit (-) (as % of the GDP)	-5.7	-0.7	3.9	-4.6	-3.5
<i>Memo</i> : Exchange rate <i>Bolívars</i> per USD (annual average)	547	606	680	724	1,401

Source: BCV.

^(a) Preliminary figures.

In February 2002, the “exchange rate bands” regime was replaced with free flotation. Between that month and October, the exchange rate devalued by 93 percent, mainly because of the situation in the international oil market and the economic and political expectations in the context of the new exchange rate regime.¹ This devaluation has triggered a strong decline in economic activity and sharp rises of inflation and of the unemployment rate.

1.3 FINANCIAL SECTOR

In the last ten years the Venezuelan financial system has been exposed to a range of shocks. Financial liberalization took place after the signs of financial repression that had characterized the economy since 1988. Liberalization, thus, resulted in a sharp rise in interest rates. Later on, in 1994, a banking crisis of systemic proportions materialized.

This crisis triggered significant changes to the related laws and regulations, including the introduction of universal banking. The revamping and re-organization efforts led to the final shut down of several financial entities while for others the government became the owner and administrator. In 1996, the soundness and liquidity ratios began to improve and financial intermediation activities resumed

¹ In terms of bolívares, the national currency, per United States dollar. Throughout all this Report, the “USD” symbol will be used to represent the United States dollar while “Bs.” will be used for bolívares.

growth. In this regard, the launching of a new Accounting Manual improved the quality of the information generated by the system.

In 1996, the banking institutions that had been absorbed by the government during the crisis underwent a process of re-privatization. Also, the conversion of the Provincial and Mercantil banks into universal banks was authorized. By the end of that year, these banks had nearly a 30 percent combined share of the total assets and liabilities of the banking sector. The reorganization of the system, whose main feature was the transformation of specialized institutions into universal banks, continued during 1997. Moreover, it became easier for foreign banks to participate into the Venezuelan banking system.

In 1998, despite the difficult macroeconomic environment, the banking system showed a stable performance with improvements in most indicators. Despite it had been growing for the two previous years, the intermediation index showed a slight decline, mainly because of a less dynamic overall activity and a deteriorating credit portfolio. In 1999, the system remained solvent and stability, with adequate capitalization ratios and reserves creation. Nevertheless, the system continued to be negatively affected by the economic recession and high average interest rates.

In year 2000, the recovery of the economic activity and lower interest rates had a positive impact in credit portfolio growth, although the profitability and capital adequacy indicators declined. During that year, a number of mergers was initiated with the purpose of strengthening the financial health of the institutions, resizing market shares and increasing the quality and the efficiency of banking services. The Financial Regulation Board (*Junta de Regulación Financiera*) and the National Securities Commission (*Comisión Nacional de Valores, CNV*) updated the regulatory framework for mergers for this purpose.

Starting in 2001, the Venezuelan banking system, which represents around 70 percent of the financial sector, has been characterized by a concentration of assets in government securities, while liabilities basically comprise highly liquid instruments with very short maturities. This behavior is closely linked to the economic and political situation of the country, characterized by economic recession and volatility in the macroeconomic variables due to the financing needs of the government and the uncertainty of the economic agents.

1.4 CAPITAL MARKETS

A new Securities Market Law (*Ley de Mercado de Capitales*) was enacted in October 22, 1998. This law regulates the public offering of equities and other medium and long-term securities, as well as stock exchanges, securities market intermediaries and other related entities.

The new Securities Market Law (SML) grants new powers to the securities regulatory agency, the National Securities Commission (*Comisión Nacional de Valores, CNV*). In an attempt to adapt it to the evolving needs of the economy, the CNV is now charged with promotion and sanctioning duties, and it is given full financial autonomy and its own legal status. The main objective of the CNV is to oversee transparency in the securities market and investor protection by fostering disclosure of financial information and compliance with the laws and all other rules and regulations.

The securities market in Venezuela is dominated by government securities, which in 2001 represented about 97 percent of the total traded volume. The government mainly issues National Public Debt Bonds (DPNs), Treasury Bills and, recently, "Vebonos".

As of October 2002, the amount of the public debt in circulation in the domestic market was approximately USD 8,000 million, of which the "Vebonos" represented nearly USD 235 million. The BCV also issues short-term Certificates of Deposit (CDs) and is in charge of placing, settling and servicing the issued securities as the financial agent of the national government.

The primary placement of government securities is made through the Integrated Open Market System (*Sistema Integrado de Mercado Abierto*, SIMA) of the BCV, except for the Vebonos, which are assigned directly to the holders.² In the secondary market government securities are traded mainly over-the-counter (OTC), and are settled through the Integrated System for the Electronic Custody of Securities (*Sistema Integrado de Custodia Electrónica de Títulos*, SICET), also developed and operated by the BCV.

The Caracas Stock Exchange (*Bolsa de Valores de Caracas*, BVC) is the only stock exchange in the country. Equities, the Vebonos, commercial papers and some external debt issuances of the public sector (e.g., Brady Bonds) are traded at the BVC.

Traded volumes and values at the BVC have declined substantially in recent years. Nonetheless, with the launching of the Vebonos in 2002 the stock exchange market is apparently regaining some dynamism. Other events in this market that are worth mentioning are the recent mergers and public buy-out processes, which have included several major exchanges of share packages and takeovers.

Moreover, to serve the needs of those national investors seeking for profitable investments in securities listed in international markets, the BVC promoted the creation of investment trusts carrying securities quoted in the international capital market with a moderated risk profile and that are heavily demanded in the Venezuelan market. These trusts are better known in the market as "Investment Jewels" or simply "Jewels", and they are freely traded directly in the BVC through a brokerage house.

Finally, it is worth mentioning the authorization that the CNV gave for the creation of the first commodities exchange in the country, the Agricultural Products and Raw Materials Exchange of Venezuela (*Bolsa de Productos e Insumos Agropecuarios de Venezuela*, BOLPRIAVEN). This exchange plays a key role in the agricultural sector of the country, as it is the means through which the major agricultural and livestock products can be traded efficiently. The BOLPRIAVEN also gives new alternatives for the financing of crops, storage and livestock breeding.

1.5 MAJOR TRENDS IN PAYMENT SYSTEMS

Cash, cheques and large value interbank transfers are the principal means of making payments in Venezuela. The BCV operates the cheques clearinghouse. Also, for credit transfers among current

² The "Vebonos" were granted directly to college professors in order for the State to settle accrued liabilities with them.

accounts it operates two systems: a manual procedure and an automated mechanism based on a SWIFT closed users group. At present, the BCV manages 1,172 current accounts in its system. Besides financial institutions, several public sector institutions have a current account at the BCV.

The cheque clearinghouse processes both large value payments as well as retail payments. Cheque clearing and physical exchange take place in the two major cities: Caracas and Maracaibo. The clearing and settlement process is partially automated. Participants present to the BCV computer diskettes containing the information on the outcome of the two clearing sessions of the day, the first one being the presentation and exchange of the cheques for collection and the second one the returned items session. With this information, the BCV calculates the multilateral net positions, informs the participants about the results and affects the single accounts of the participating institutions twice during the settlement cycle. The first posting is preliminary, as it does not include the information on the returned items. Once the latter session takes place, the second and final posting is made. On an ordinary day the cheque clearinghouse processes an average of 430,000 cheques with an average value per cheque of about USD 950.

As per the credit transfer mechanisms operated by the BCV, approximately 500 operations are made every day with a total settlement throughput of USD 320 million. This amount is similar to the gross amount settled at the cheque clearinghouse. Nonetheless, in recent years, and particularly in 2002, these credit transfer mechanisms have been increasing their relative importance.

The credit transfer mechanism based on a SWIFT closed users group is the most important as it concentrates about 83 percent of the volume of the operations and almost 80 percent of the total value settled through credit transfers. In this mechanism, operations are settled by means of an interface between the SWIFT-based system and the current accounts system of the BCV.

Participants holding a current account at the BCV may also order interbank credit transfers through paper formats ("*carta orden*") and transmissions via certified telex. The processing of these payment instructions by the BCV is fully manual, and the operations are settled on a gross basis as they arrive to the BCV. It takes about one hour to settle payment instructions in paper and about 45 minutes for those orders sent through a telex transmission.

The BCV also developed the Funds Transfer Electronic System for Interbank Loans (*Sistema Electrónico de Transferencias de Fondos para Préstamos Interbancarios*, SET). Both secured and unsecured short-term interbank loans may be executed through the SET, although secured loans are much more common.

As per other retail payment systems, besides traditional instruments like payment cards, various institutions are actively involved in the development of new products, like the introduction of e-money. Furthermore, several domestic banks have developed home banking services for their clients.

In the country there are 5 networks of automated teller machines (ATMs). SUICHE 7B and Conexus are the two main networks with a total of 4,302 ATMs. These networks are interoperable and together they service most banks in Venezuela. The interbank balances stemming from ATM

transactions are settled through private commercial banks, normally by cheques. The three remaining networks are the private networks of three other commercial banks.

Credit card payments interbank balances are also settled in a commercial bank. In May 2002 a group of seven banks created the Interbank Payment System (*Sistema de Pagos Interbancarios, SPI*) to automate the processing of payment instructions related to credit card payments. Debit cards are not yet widely accepted or used in Venezuela.

The private banking sector and the BCV have been fostering several improvements to the national payments system. In particular, the Venezuela's Banking Association (*Asociación Bancaria de Venezuela, ABV*) and the BCV have been working in a project called "Payment Means Electronic Clearance System" (*Sistema de Compensación Electrónica de Medios de Pago*). Moreover, to better coordinate its actions in this area, the BCV created the BCV Advisory Committee for Payment System Reform, through a Central Bank Resolution of July 1999.

Some of the most salient features of the upcoming Electronic Clearinghouse for Cheques and Other Payment Means (*Cámara de Compensación Electrónica de Cheques y Otros Medios de Pago, CCE*) are the electronic exchange of the information on the documents to be cleared among financial institutions under a straight through processing (STP) environment, settlement of the balances generated by the CCE at the current accounts in the BCV and the development of direct debit and direct credit payment instruments.

The BCV was initially planning to outsource the services needed for the operation of the CCE. However, starting May 2002, once the bidding process for this service that started in December 2001 was declared abandoned, the BCV decided to undertake this project directly.

Finally, for foreign exchange transactions, the BCV operates a centralized trading mechanism that is accessible to various types of financial institutions. The BCV is the main provider of foreign currencies to the market as it is the sole buyer of the foreign currencies that the state-owned petroleum company, *Petróleos de Venezuela S.A. (PDVSA)*, generates through oil exports. Transactions at this centralized system are executed over the phone with a 48-hour settlement date. The BCV settles the local currency leg by charging the current account of the buying bank. Then, through SWIFT the Central Bank instructs its correspondent bank abroad to credit the foreign correspondent of the buying bank.

1.6 MAJOR TRENDS IN SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS

The SML states that the CNV is in charge of establishing the general policies for the securities market and its participants, as well as overseeing the compliance with issued regulations. However, the SML explicitly mentions in its Article 1 that its scope of application does not reach either government securities or the debt securities issued in accordance with the Banks and Other Financial Institutions General Law (*Ley General de Bancos y Otras Instituciones Financieras*) and the National Savings and Loans System Law (*Ley del Sistema Nacional de Ahorro y Préstamo*).

As of October 2002, 67.4 percent of the outstanding government securities were dematerialized and registered in the BCV. Global notes immobilized at the BCV represent another 32.4 percent

of the outstanding amount. Individual physical certificates in circulation represent only 0.15 percent.

Thus, with the exception of the Vebonos, the BCV is the depository of all other government securities.³ Custody and all other central securities depository (CSD) functions, including ownership transfers and rights administration, are performed through the BCV's Integrated System for the Electronic Custody of Securities (SICET).

As mentioned before, government securities are auctioned in the primary market through the SIMA and are mainly traded OTC, while settlement takes place in the SICET. All these systems were developed and are operated by the BCV and are partially automated. Participants communicate their bids over the telephone, and BCV staff manually enters the information into the corresponding system(s). These systems validate the operations and automatically issue a confirmation that is sent via SWIFT.

Transactions made at the SIMA, SET and SICET have different settlement cycles. In auctions, even for the same type of securities there are different settlement cycles (T + 0 or T + 1) depending on the day of the week in which the auction takes place. For secondary market operations in which it participates, the BCV uses a T + 0 settlement cycle. Regarding the interbank money market (*i.e.*, the SET), once the transactions are matched the system settles them immediately after. This is also the case for OTC transactions that use the SICET for settlement.

The SIMA, SET and SICET are linked to the current accounts system of the BCV, thereby allowing transactions to be made on a delivery versus payment (DVP) framework.⁴ Moreover, in the case of repos and collateralized loans these systems execute the second leg of these transactions automatically. The BCV does not undertake any credit risks as operator in any of its systems. On the other hand, when it actually acts as a counterparty in the secondary market, in case any of its counterparties is unable to fulfill its obligations it becomes subject to the sanctions' regime.

In Venezuela there is only one stock exchange currently operating, the Caracas Stock Exchange (*Bolsa de Valores de Caracas*, BVC). The SML defines stock exchanges as non-for-profit entities. They are also considered self-regulatory organizations, whose regulations must be approved by the CNV. All kinds of securities with the exception of equity shares can be traded at the stock exchange or in the OTC market. Equity shares can only be traded at the stock exchange through a brokerage house.

A private CSD, the Venezuelan Securities Depository (*Caja Venezolana de Valores*, CVV) was created in 1992. A specific law for CSDs, the Securities Depositories Law (*Ley de Cajas de Valores*) was enacted in 1996. Equity shares and the Vebonos are deposited in the CVV in a tiered system of direct depositors and sub-accounts.

³ Nonetheless, the Vebonos are kept in custody in the BCV in the name of the CVV.

⁴ Free-of-payment securities transfers can also be made at the SET and the SICET.

The BVC has an electronic trading system, the Integrated Electronic Stock Exchange System (*Sistema Integrado Bursátil Electrónico*, SIBE). Transactions made at the BVC are settled on T + 3. The CVV settles the securities leg on a gross basis and informs the BVC on the securities transfers that were actually made. The BVC then generates an electronic file with the net debit and credit positions for the cash leg and sends it to a commercial bank that acts as the settlement agent. Participants with a debit net position have until 2:00 p.m. of the settlement date to fund their account with the settlement agent.

2 INSTITUTIONAL ASPECTS

2.1 GENERAL LEGAL FRAMEWORK

The main laws that govern payments and securities clearance and settlement systems in Venezuela are the Law of the Central Bank of Venezuela, the Banks and Other Financial Institutions General Law, the Securities Market Law, the Organic Law for the Financial Administration of the Public Sector, the Commercial Code, the Decree-Law on Data Messages and Electronic Signatures and the Special Law for Computer Crimes.

Table 2: General Legal Framework

<i>Name</i>	<i>Subject</i>	<i>Date</i>
Commercial Code	It contains the regulations governing the main payment instruments like letters of exchange, promissory notes, cheques, credit cards and current account contracts.	21/12/1995
Securities Market Law	It sets the rules regarding the issuance, placement, trading and registration of securities issued in series, the actions of the various participants in the securities market, centralized trading mechanisms and securities settlement.	22/10/1998
Organic Law for the Financial Administration of the Public Sector	It establishes the custody of the funds and the securities of the Republic as a function of the National Treasury Office.	28/03/2000
Law of the BCV	It gathers the powers and responsibilities of the BCV as the sole monetary authority.	03/10/2001
Special Law for Computer Crimes	It covers computer crimes.	30/10/2001
Banks and Other Financial Institutions General Law.	It establishes the creation and functioning requirements for the various financial institutions and the main powers of the Superintendence of Banks and Other Financial Institutions, of the National Banking Council and of the Deposit Insurance and Banking Protection Fund.	13/11/2001
Decree-Law on Data Messages and Electronic Signatures	It contains the legal underpinning for the technological developments related to security in electronic communications and business, giving full legal value to data messages that use these technologies.	28/12/2001

2.1.1 Payments

The Law of the Central Bank of Venezuela (the "BCV Law") of 2001 establishes the responsibilities and the powers of the central bank. Regarding payment systems, the BCV's main duties are the following:⁵

- Oversee the correct functioning of the payments system of the country and establish its operational rules.
- Regulate the currency and promote the adequate liquidity of the financial system.
- Exercise, with exclusivity, the power to issue currency.
- Regulate credit and interest rates throughout the financial system.
- Participate in the forex market, as well as perform the surveillance and regulation of the same.

Article 21 contains a more detailed description of the BCV's functions regarding payment systems. It is the responsibility of the BCV to oversee and dictate the operational rules of the different payment systems of the country, either operated by the BCV or by another entity, to ensure that they function efficiently and within the highest security standards both for the participants and the general public. The BCV is the only authorized entity to subscribe agreements whereby the operational rules for bilateral and international payment systems are to be established.

The Resolutions of the BCV are also important at a more operational level. Particularly relevant is the Resolution No. 96-08-01 of August 22, 1996, which contains the Clearinghouses' System Regulation.

2.1.2 Securities

The SML in force was enacted in 1998. The SML charges the CNV with the promotion, regulation, surveillance and supervision of the capital market.

The definition of securities in the SML includes corporate equities, debentures and other securities issued massively that have the same characteristics and give the same rights within their class. These securities are subject to the control of the CNV. However, Article 1 of the SML states that the scope of application of this law does not cover government securities and the debt securities issued in accordance with the Banks and Other Financial Institutions General Law (*Ley General de Bancos y Otras Instituciones Financieras*) and the National Savings and Loans System Law (*Ley del Sistema Nacional de Ahorro y Préstamo*). On the other hand, Article 24 includes the legal underpinning for the immobilization and dematerialization of the securities.

⁵ Article 7 of the BCV Law. This article also describes all other functions of the BCV.

The Securities Depositories Law was enacted in 1996. This law governs the services provided by companies whose sole purpose is the provision of deposit, custody, transfer, clearance and settlement services for publicly offered securities. Regarding ownership transfers, this law states that it may be performed with book entries. The CSD Regulation (*Normas Relativas a la Organización y Funcionamiento de las Cajas de Valores*) was approved by the CNV in October 1996.

For government securities there are no specific definitions as per immobilization, dematerialization or the transfer of ownership. Every issuance, either of the government or of the BCV, specifies the rules under which the corresponding securities will be operated.⁶

The Organic Law for the Financial Administration of the Public Sector includes as a function of the National Treasury Office the custody of the funds and securities that belong to the Republic. At present, this function has been delegated to the BCV.

Other relevant rules are the BCV Resolutions that deal with the operational rules for BCV and national public debt dematerialized securities, as well as the user's manuals and instructions for the BCV systems for securities trading, clearance and settlement. These rules and manuals are described in more detail in Chapter 7.

2.1.3 Derivatives

Article 53 of the SML defines derivatives as the instruments or securities representing optional rights to buy or sell goods, futures contracts whereby the parties are compelled to buy or sell a certain amount of an asset, at a certain price and at a pre-determined date in the future, and, in general, any other instrument whose value is determined by or set in reference to the value of another asset.

In order to authorize the issuance of derivatives, the CNV has to take into consideration that the underlying asset is actively traded in the Venezuelan market, that the public can easily determine the price of the underlying asset and that there is an economic justification for the derivative. Moreover, the CNV is empowered to set guarantee margins, custody requirements and the general requirements for the individuals and firms that intend to participate in this market. The guarantees that have been created to support derivatives trades in a derivatives exchange are not affected by the nullities that the Commercial Code refers to in case of bankruptcy.⁷

2.1.4 Specific Legal Issues Related to Clearance and Settlement

2.1.4.1 Netting

Neither bilateral netting nor multilateral netting are explicitly stated in any law. Notwithstanding several BCV regulations make references to these concepts, it is uncertain whether netting arrangements would be recognized in a court of law in, for example, a bankruptcy case.

⁶ Article 57 of the BCV Law.

⁷ Article 54 of the SML.

2.1.4.2 Settlement Finality and Zero Hour Rule

There are no legal definitions related to the processing of payment orders in a system, like for the moment in which a payment becomes accepted for settlement, irrevocability of payments or payment finality.

On the other hand, in the Venezuelan laws there are no explicit references to the so-called zero hour rule, which voids the transactions already settled and considered final during the day an entity is declared in bankruptcy. For this reason, neither the judicial courts nor the intervening authority can take retroactive actions over transactions already executed, except for cases in which fraud can be demonstrated.⁸

2.1.4.3 Electronic Documents and Signatures

A Decree-Law⁹ regarding documents and electronic signatures was approved in February 2001. This law governs electronic signatures and electronic data messages, in a way that they are recognized as proofs in a court of law. Article 16 gives the same legal value to electronic signatures as that of hand-written or autograph signatures. In these matters, no specific rules or regulations for settlement systems have been developed so far.

2.1.4.4 Novation

There are no dispositions regarding novation in the Venezuelan legal framework.

2.2 THE ROLE OF FINANCIAL INSTITUTIONS: PAYMENTS

The main participants in the payments system are the banks, which in Venezuela can take several specific forms such as commercial, universal, mortgage or investment banks. Institutions such as savings and loans, leasing companies and money market funds are also considered part of the banking sector.

As of September 2002, the banking sector comprised a total of 51 institutions, including 20 commercial banks and 15 universal banks. Out of this total, there were 29 domestic institutions, 19 foreign institutions and 3 owned by the public sector.

2.2.1 The Banking Sector

2.2.1.1 Commercial Banks

These entities perform traditional financial intermediation. Some of their authorized functions related to the payments system are collections and payments on behalf of third parties, funds transfers,

⁸ Nevertheless, in case a financial entity is intervened and eventually liquidated, some legal risks could arise due to the lack of a definition for the various legal concepts that assure payment finality and the lack of specific legal protection for settlement systems.

⁹ A decree issued by the government that has the same status as a law enacted by Congress.

money orders, cheques and payment orders, and the issuance and administration of credit and debit cards. They can participate in the cheque clearinghouse.

2.2.1.2 Universal or Multiple Banks

These institutions may perform all the activities authorized to commercial banks and to other specialized financial institutions, and they are only limited with what established in the Banks and Other Financial Institutions General Law (LGBOIF).

2.2.1.3 Investment Banks

The basic purpose of investment banks is, according to the LGBOIF, to promote the creation, recovery and development of enterprises and to participate in the capital market. These entities collect resources through deposits, loans and the issuances of bonds and other debentures, and place them in medium and long-term operations like loans or investments in the equity of other firms.

2.2.1.4 Mortgage Banks

The main function of this kind of entities is to grant loans backed-up with mortgages to, among others, the construction sector, to acquire houses or to release previous mortgages granted by other entities.

2.2.1.5 Representative Offices of Foreign Banks

These are only representative offices of foreign banks and they are not allowed to collect resources from the public in Venezuela. They can only act as intermediaries between the bank they represent and the individuals or firms residing in Venezuela that have been granted a loan by those institutions.

2.2.1.6 Leasing Companies

These institutions can only collect resources through unsecured bonds and savings certificates. They cannot receive sight, term or savings deposits. They can perform other operations that the Superintendencia of Banks and Other Financial Institutions (*Superintendencia de Bancos y Otras Instituciones Financieras*, SUDEBAN) deems as compatible with their nature.

2.2.1.7 Money Market Funds

The money market funds sell or hand over the public participations in securities of a larger denomination and longer term. These funds are highly liquid because of the repurchase commitment they undertake with the acquirer of such funds.

2.2.1.8 Savings and Loans Entities

These are nonstock institutions (*i.e.*, mutual associations). Members make contributions to these institutions in order for the firm to make loans to the members themselves, basically for housing purposes. Recently they were authorized to offer current account services.

2.2.1.9 Capitalization Companies

These are very specialized institutions that receive funds from “subscribers”, which pay a one-time fee or several periodical fees in exchange of a yield. At the same time, the subscribers participate in lotteries through which they may obtain the anticipated redemption of their holdings or other goods or cash, according to what established in the corresponding capitalization plan.

2.2.2 Other Institutions that Provide Payment and Settlement Services

In Venezuela, besides the BCV and the banking sector, credit card operators are the only relevant institutions providing payment services. Payments through postal instruments are not very popular. Moreover, alike other countries in the Region, the specialized companies that provide cross-border money transfer services (*e.g.*, remittances) have little relevance in Venezuela.

The major credit card operators are Visa, Mastercard, American Express and Diners. Visa and Mastercard issue their cards through some banking institution and those cards carry a credit line granted by the issuing bank. The other two companies operate charge cards, also known as travel and entertainment cards, which do not grant a revolving credit line. Instead, the full amount of the purchases made within a certain period with this type of cards, usually a month, must be paid at a specified rolling date.

2.3 THE ROLE OF FINANCIAL INSTITUTIONS: SECURITIES

2.3.1 Securities Market Participants

The individuals and firms that comprise the securities market are the following:

- a. Entities that carry out public securities offerings and use the obtained resources to fund their operations.
- b. Entities that hold securities registered in the National Securities Registry (*Registro Nacional de Valores*, RNV).
- c. Collective investment entities.
- d. Management firms of collective investment entities as well firms that distribute the shares issued by collective investment entities.
- e. Brokerage houses.
- f. Public securities brokers.
- g. Investment advisors.
- h. Stock exchanges.

- i. Securities Depositories.
- j. Options and futures clearinghouses.
- k. Risk rating agencies
- l. Transfer agents.

The supervisory agency, the CNV, is considered a market participant as well.

As of October 2002, the securities market comprised 1 stock exchange, 1 securities depository and 63 registered brokerage houses. Of the latter, only 28 were actually operating as of this date.

2.3.1.1 Brokerage houses

Brokerage firms (*sociedades de corretaje*) are also known as brokerage houses (*casas de bolsa*) when they hold a trading spot at the Caracas Stock Exchange. Besides the usual intermediation activities, these entities may perform the following:¹⁰

- Underwrite securities issuances, including both new issuances in the primary market and any massive redistribution of already issued securities.
- Operate and handle securities liquidity funds as specialists.
- Act on their own behalf as specialists, supporters or stabilizers in the secondary market.
- Enter into repo transactions, either as buyer or seller.
- Fund their activities through the issuances of securities.
- Issue securities participations that can be publicly offered, subject to the rules issued by the CNV.
- Perform other activities authorized by the CNV.

2.3.2 Exchanges

Stock exchanges are defined in the SML as institutions open to the public whose purpose is to provide all the necessary services for secondary market transactions with securities to be made in a continuous and organized manner, thereby increasing the liquidity of these securities.

The Caracas Stock Exchange (*Bolsa de Valores de Caracas, BVC*) is the only stock exchange operating in the country at present. Equity shares, commercial papers and a few government securities (*i.e.*, Vebonos and Brady Bonds) are the main instruments that are traded at the BVC.

¹⁰ Article 79 of the SML.

2.3.3 Securities Clearance and Settlement Institutions

Central securities depositories (CSDs) are authorized to receive collective deposits of public or private securities and to provide the services of custody, transfer, clearance and settlement of securities. At present, one private CSD operates in Venezuela, the Venezuelan Securities Depository (*Caja de Valores Venezolana, CVV*), which settles securities transactions made at the stock exchange.

The BCV, on the other hand, developed a system for the custody, clearance and settlement of transactions with government and BCV securities. Thus, with the exception of the Vebonos all government securities are cleared and settled in the Integrated System for the Electronic Custody of Securities (*Sistema Integrado de Custodia Electrónica de Títulos, SICET*). Vebonos, on the other hand, are kept in custody at the BCV in an omnibus account of the CVV, which, in turn, acts as the central depository for these securities and performs all securities transfers related to them.

Regarding derivatives, trading in Venezuela is incipient. The SML includes a section on options and futures clearinghouses. The latter are defined as firms whose sole purpose is to issue options and futures contracts, to provide registration and clearance services for these contracts, to record the balances and transactions of the participants and to perform the settlement of daily profits and/or losses. Notwithstanding this definition, at present no clearinghouse of this type is operating in the country.

2.4 MARKET STRUCTURE AND REGULATION

The banking system represents 76 percent of the total financial system and its size in relation to the economy is relatively small. As of September 2002, the total assets of the banking system represented about 26 percent of the GDP, a figure that is below that of other economies in the Region.

Table 3: Relative Importance of the Different Segments of the Venezuelan Financial System
(as of September 2002)

	<i>Market Capitalization (in USD billion)</i>	<i>Share (%)</i>
Banking Sector	15.7	76.0
Securities Market	3.5	16.8
Insurance Market	1.5	7.2
Total	20.7	100.0

Source: own elaboration with BCV data.

Regarding financial intermediaries, the specialized supervisory agencies are the Superintendence of Banks and Other Financial Institutions (SUDEBAN), the National Securities Commission (CNV)

and the Superintendence of Insurance.¹¹ The BCV, on the other hand, has the power to regulate through circulars all the operational aspects related to payment activities and the operations in the forex and government securities markets.

2.5 THE ROLE OF THE CENTRAL BANK

2.5.1 Monetary Policy and Other Functions

The Constitution of Venezuela of 1999 states that the BCV is the entity responsible for the definition and the execution of the monetary policies. Its main objective is to achieve price stability.¹² The BCV Law grants the Central Bank full autonomy to carry out its duties and fulfill its objectives.¹³

The BCV uses both direct and indirect instruments for its monetary policy operations, although at present it acts mainly through different forms of open market operations (OMOs).

The BCV is also the main provider of foreign currencies in the market. This is explained by the fact that *Petróleos de Venezuela S.A.* (PDVSA), the state-owned petroleum company, and its subsidiaries must sell to the BCV the foreign currencies they obtain from their export activities. On the other hand, as the monetary authority the BCV is responsible for the orderly development of the forex market.

The BCV is also the financial agent of the National Government. In this function it can act as placement and settlement agent of internal public credit operations.

All these functions are described in more detail in Chapter 8 of this Report.

2.5.2 Involvement in the Payment Systems

As mentioned in Section 2.1.1, the BCV has wide powers as per the national payments system, including the exclusivity over the issuance of the national currency, the control and regulation of payment means, and the oversight of all payment systems in the country, for which the Central Bank can also dictate all operational rules.

The BCV offers different payment services to financial institutions. The transactions are executed through the current accounts that these institutions hold at the BCV and which operate through the mobilization of reserve requirements.

The BCV also operates the cheque clearinghouse, in national and foreign currency, in its own premises.

¹¹ According to the Insurance and Re-Insurance Law of 2001, the Superintendence of Insurance is an autonomous service of a technical nature that is integrated in the Ministry of Finance (*i.e.*, it does not have a legal status of its own).

¹² Article 318 of the Constitution of Venezuelan.

¹³ Article 5 of the BCV Law.

Finally, the BCV is a direct and indirect collection agent¹⁴ of the national revenues and it is in charge of performing the payments ordered by the government. It is also empowered to become the depository of the funds of the National Treasury. As part of these functions, the BCV has developed different systems for the trading, clearance and settlement of government securities. These systems are described in detail in the Chapter 7 of this Report.

2.6 THE ROLE OF THE BANKING SUPERVISION AUTHORITY

The Superintendence of Banks and Other Financial Institutions (SUDEBAN) is a technical and specialized entity whose main function is the supervision, control and surveillance of the financial institutions ruled by LGBOIF in order to avoid banking crises and to foster the sound and efficient functioning of the Venezuelan financial system.

This, the SUDEBAN is the supervisory agency for universal, commercial, development, investment and mortgage banks as well for capitalization companies, foreign exchange houses, deposit general warehouses, representative offices of foreign banks, leasing companies, money market funds and savings and loans entities. Credit card issuers and operators are also controlled by the SUDEBAN.

2.6.1 Supervision Model

SUDEBAN's specific functions are described in Article 235 of the LGBOIF. Its functions range from authorizing the creation and functioning of financial institutions, the issuing and implementing of prudential, accounting and other regulations, adopting measures to avoid or correct mistakes or irregularities, applying any related sanctions, declaring the bankruptcy the supervised entities and intervening these.

Regarding payment systems, SUDEBAN is empowered to authorize, suspend or revoke the funds transfer services provided by the non-financial entities governed by the LGBOIF.

SUDEBAN supervises the financial entities through various Inspection Divisions, which are responsible for implementing the two basic types of controls: direct controls (*i.e.*, on site inspections) and indirect controls (*i.e.*, off-site surveillance). Also, SUDEBAN has a Technical Division that is in charge of preparing technical studies, statistics, economic research and special studies to support supervisory activities.

2.6.2 Anti-Money Laundering Measures

The most important laws and regulations in this area are the Organic Law on Narcotics (*Ley Orgánica sobre Sustancias Estupefacientes y Psicotrópicas*) of 1993, the LGBOIF of 2001 and SUDEBAN's Resolution No. 185.01 of 2001.

The LGBOIF states that a National Unit of Financial Intelligence is to be created inside the SUDEBAN. Through this Unit, SUDEBAN will be able to request, receive, analyze, file and transmit

¹⁴ It collects the revenues in its own premises and it also uses correspondents, branches and agencies.

to the competent criminal investigation police and public prosecutors the reports on suspicious operations regarding the legitimacy of the capitals that the financial entities must provide regularly, as well as any other information these authorities may require to carry out their investigations.¹⁵

The LGBOIF states that the SUDEBAN must issue the necessary prudential regulations to avoid that the national banking system be used for the laundering of resources stemming from unlawful activities of any kind.¹⁶

2.7 DEPOSIT INSURANCE

The Deposit Insurance and Banking Protection Fund (*Fondo de Garantía de Depósitos y Protección Bancaria*, FOGADE) is an autonomous institution, with its own legal incorporation status and patrimony.¹⁷

The object of the FOGADE is to guarantee deposits in the national banking system, up to a predetermined amount and for certain types of deposits, and to act as the liquidator of those financial institutions governed by the LGBOIF that are declared in bankruptcy and closed down.¹⁸ Regarding this last function, the FOGADE has several mechanisms at its disposal to provide financial assistance to institutions and avoid their liquidation.

The guarantee fund is made-up with the contributions of the financial institutions. These contributions are equal to 0.25 percent of the total deposits these institutions hold at the end of each semester. Contributions must be paid each semester in six identical monthly quotas.

The FOGADE is governed by a general assembly comprising the Minister of Finance, the President of the BCV, the President of the National Banking Council and the Executive Director of the Superior Council.

2.8 THE ROLE OF THE SECURITIES REGULATOR

The *Comisión Nacional de Valores* (CNV) is an autonomous institution, with its own legal incorporation and patrimony. For administrative purposes the CNV functions under the umbrella of the Ministry of Finance.

The CNV is empowered to issue a variety of rules and regulations over the capital market. Such rules and regulations have a sub-legal status. Among others, the CNV can regulate the functioning of the entities under its control, the public buyout offers and takeover processes, the definition, prevention, regulation and arbitration of the conflicts of interest that can emerge

¹⁵ Article 226 of the LGBOIF.

¹⁶ Article 236 of the LGBOIF.

¹⁷ Article 280 of the LGBOIF.

¹⁸ Article 281 of the LGBOIF.

in the activities related to the capital markets, the acts of individuals intending to incorporate firms through the public offering of securities and the requirements that external and internal audits to the controlled entities must comply with.

The entities under the control of the CNV are the following:

- Securities issuers.
- Brokerage houses, brokerage firms, public securities brokers, investment advisors and accountants registered in the RNV.
- Stock exchanges, commodities exchanges, CSDs, risk-rating agencies, transfer agents, options and futures clearinghouses.
- Collective investment entities, risk capital collective investment entities and real estate collective investment entities as well as their management firms.

The supervisory responsibilities of the CNV are described in more detail in Chapter 9 of this Report.

2.9 THE ROLE OF OTHER PRIVATE AND PUBLIC SECTOR ENTITIES

2.9.1 The Ministry of Finance

The Ministry of Finance is one of the major users of the payments system, both because of tax collections and because of the payments it makes for the execution of the public budget. Moreover, in recent years the Ministry of Finance has been actively involved in the issuance of public debt securities in the domestic market.

The Organic Law for the Financial Administration of the Public Sector establishes that the National Treasury System is charged with the custody of funds and securities as well as with the collection of public revenues and the execution of payments. The National Treasury System is a non-for-profit mechanism that extends all over the centralized national public sector, the de-centralized public sector.¹⁹

This law creates the National Treasury Office as the regulatory body of the National Treasury System. The actions of the National Treasury Office must aim at optimizing the cash flow of the Treasury under a single account system. For operative purposes, the Ministry of Finance holds a current account at the BCV through which it makes the payments related to the public budget and collects or pays the funds related to the issuance of government securities in the domestic market.

2.9.2 The National Banking Council

In Venezuela, the relationship between the government and the banking sector is carried out through a formal body called the National Banking Council (*Consejo Bancario Nacional*, CBN),

¹⁹ Articles 105 to 120 of the Organic Law for the Financial Administration of the Public Sector.

created by the LGBOIF.²⁰ The CBN is comprised by the Presidents of all banks, savings and loans entities and other financial institutions governed by the LGBOIF. The Presidents of the BCV, FOGADE and the Superintendent of the SUDEBAN can participate in the CBN meetings, although with no voting rights.

Some of the main functions of the CBN are the following:

- Study the banking and economic conditions of the country and send its corresponding conclusions and recommendations to the SUDEBAN and the BCV. On the other hand, the CBN must answer any inquiries made by these authorities.
- Study the rules and any other measures issued by the government, the SUDEBAN and the BCV to ensure their adequate implementation.
- Identify and classify the local, regional and national banking practices and usage for their eventual incorporation in the Commercial Code.
- Study, coordinate and improve the banking practices and watch over service standards in order to provide the best possible service to consumers.
- Set the guidelines for the fees to be charged by the banking sector, without detriment of the guidelines the BCV may issue in this particular area.
- Inform the SUDEBAN about the non-compliance by financial institutions with the best banking practices identified by the CBN.

2.9.3 Venezuela's Banking Association

The Venezuela's Banking Association (*Asociación Bancaria de Venezuela, ABV*) is a non-for-profit civil association that groups the banking community of the nation. It is established in the city of Caracas. Historically, its fundamental objective has been to defend the interests of the banking community and private economic activities in general.

This body was incorporated in 1959 as the "National Banking Association" and in 1972 it changed its name to the current Venezuela's Banking Association. The ABV performs several statutory duties, like cooperating with the various banking bodies, the CBN and public authorities.

²⁰ Articles 206 to 212 of the LGBOIF.

3 PAYMENT MEDIA USED BY NON-FINANCIAL ENTITIES

3.1 CASH

The monetary unit in circulation in Venezuela is the "Bolívar" (Bs). The issuance of currency is exclusive of the Venezuelan State, which performs it through the BCV. In the Venezuelan legal framework no foreign currency is recognized as a payment means to discharge obligations among residents in the country (legal tender).

Cash is widely used for retail transactions, especially for payments to small retailers, land transportation and personal services.

The most used banknotes are the Bs.1,000 and Bs.5,000 ones, while the Bs.100 coin is the most popular one. In December 2002 a new Bs.50,000 bill was introduced.

In an historical analysis, the cash in the hands of the public as a percentage of the total monetary liquidity shows a growing trend (see Table 4). This could be influenced by the growth of the informal economy and by the creation of the "banking debit tax". At present, this tax is 1 percent over the amount of the debit.²¹

Table 4: Integration of the Monetary Aggregate M2

	1998	1999	2000	2001	2002
Cash/M2	11	14	12	13	19
Sight Deposits/M2	35	34	37	40	36
Savings Deposits/M2	31	30	30	28	24
Term Deposits/M2	22	22	21	19	20

Source: BCV.

As the exclusive issuer of the national currency, the BCV decides about the design of banknotes and coins, production, supply and withdrawal from circulation. All these functions are included in the Regulation on Minting, Printing, Issuance, Circulation, Exchange and Destruction of Monetary Species. Coins were manufactured outside Venezuela until 1998. Starting 1999, the BCV has its own Coins Manufacturing House (*Casa de la Moneda*).

Cash distribution and custody are made at the headquarters of the BCV in the city of Caracas and in its main branch in the city of Maracaibo. Cash withdrawals and deposits by financial institutions follow this procedure:

²¹ This tax was introduced in May 15, 1999. At that moment, the tax was 0.5 percent over the amount of the debit and remained in force until December 2000. The tax came back into force in March of 2002 with a 0.75 percent over the amount of the debit.

- a. Through a SWIFT message, financial institutions send their requests of banknotes and coins to the BCV one day in advance. Financial institutions must indicate the denominations of the banknotes and coins they need and the value date of the transaction.
- b. These requests are processed by the BCV according to the available stock of the various denominations.
- c. Deposits of suitable and unsuitable banknotes are entered into the Banknotes and Coins Application System the same day of the transaction.
- d. Withdrawals and deposits are made during daylight hours.

3.2 PAYMENT MEANS AND INSTRUMENTS OTHER THAN CASH

3.2.1 Cheques

Cheques are the most important payment instrument in Venezuela. The commercial and universal banks, and more recently the savings and loans entities, can offer sight deposit accounts in which the funds can be mobilized with cheques. According to the information in Table 4, in recent years sight deposits have represented from 35 and up to 40 percent of the total monetary liquidity as measured by M2. Table 5 shows the volume and value of cheques in the country.

Table 5: Volume and Value of the Cheques Processed at the BCV Clearinghouse

	1998	1999	2000	2001	2002
Volume of Transactions (in thousands)	137,730	112,360	107,561	107,049	79,103
Value of Transactions (in Bs. Billion)	108,425	98,001	112,627	135,217	110,703

Source: BCV.

Growing acceptance of cheques by the public has been possible due to the impulse banks have given to several related services like the confirmation of availability of funds, security standards and the introduction of guaranteed cheques.²² Moreover, banks have been facilitating the use of cheques for bank customers and merchants. Among these facilities, the most relevant ones are price incentives (e.g., reduced fees, the remuneration of sight accounts that fosters the use of cheques because of the floating) and several services such as extended hours windows to cash cheques or the possibility of making cheque deposits in mailboxes or ATMs.

3.2.2 Direct Credits / Debits

The banks have already incorporated direct credit and direct debit services as mechanisms to mobilize deposits and payments. Nonetheless, these services are available in an "on us" basis (i.e., at the

²² The banks have developed proprietary systems to guarantee cheques. There is a 24-hour telephone service available to beneficiaries to confirm the validity of the cheques above Bs.20,000.

intrabank level) only. Therefore, the originator and the beneficiary must hold an account at the same bank.

At present, the BCV is working to implement a system for the electronic clearance of retail payment instruments. It is expected that the latter system will enable the operation of direct debit and direct credit transactions at the interbank level. This project is better described in Chapter 4 of this Report.

3.2.3 Payment Cards

3.2.3.1 Automated Teller Machines (ATMs)

Banks have developed various ATM networks, which are accessible to bank clients through the use of cash cards (*i.e.*, cards with a cash-withdrawal function).

The two main networks, SUICHE 7B and Conexus, belong to two private banking groups. Most banks are affiliated to one of these networks, which became interoperable in July 2000. At the end of 2002, the combined network comprised 4,302 ATMs. In the same year, 158 million of transactions were processed for an amount of Bs.3,404,625 million.

On the other hand, three banks (Bolívar, Plaza and Guyana) have their own ATM networks. These three networks operate through Cirrus and Maestro and are not interoperable neither among them, nor with the SUICHE 7B and Conexus networks.

3.2.3.2 Credit Cards

Credit cards are intensively used for retail payments to merchants and for cash withdrawals. In recent years, credit cards are also being used to make direct debits or charges to the holder's account (locally known as "*domiciliaciones*").

At present, the major operators in this market are Visa and Mastercard, which work under the "open" model (*i.e.*, cards are issued by banks), and American Express and Diners, which work under the "closed" model.

Credit cards payments are normally processed on line, with direct communication through an authorization center. Table 6 presents the number of credit cards and the value of transactions with this payment instrument in the country.

Table 6: Number of Credit Cards and Value of Transactions

	1998	1999	2000	2001	2002
Number of Cards	2,581,236	2,568,932	2,462,934	2,490,620	n.a.
Value of Transactions (in Bs. billion)	766	888	1,003	1,176	n.a.

Source: SUDEBAN.

3.2.3.3 Debit Cards

Despite the efforts made by banks, debit cards are being accepted at a very slow pace and, at present, are not very relevant as a payment instrument. Most commercial and universal banks and the savings and loans entities issue debit cards under the Maestro brand.

3.3 NON-CASH GOVERNMENT PAYMENTS

The Ministry of Finance has a current account at the BCV through which it processes the charges and payments related to tax collections and the execution of the national budget as well as those related to the issuance and redemption of government securities in the domestic market.

In 2002, the BCV processed a total of 65,020 payment orders representing Bs.26,501 billion. On the other hand, the collections the BCV made on behalf of the central government amounted to Bs.8,034 billion through 38,266 transactions made at the BCV's tellers.

The payments the Ministry of Finance makes through its current account in the BCV are transferred to the accounts the public sector institutions hold at the BCV as well. Then, public sector institutions, as the final executors of the national budget, transfer the funds to their accounts at commercial banks to make the corresponding payments to firms and individuals.

4 PAYMENTS: INTERBANK EXCHANGE AND SETTLEMENT CIRCUITS

4.1 THE REGULATORY FRAMEWORK FOR CLEARINGHOUSES

The Commercial Code provides the legal framework for cheques. Cheques can be issued to the bearer and are of two kinds: at sight or at term. In the latter case, the cheque is actually a promissory note for a term above 6 days after its presentation. There are sanctions from 1 to 12 months of prison for issuing a cheque without the necessary funds at clearing.

Cheque clearing and settlement is regulated by the Clearinghouses' System Regulation issued by the BCV through the Resolution No. 96-08-01, published on the Official Gazette on August 29, 1996.

All other payment instruments in which the interbank obligations are subject to a netting procedure are processed and settled outside the BCV. At present, the BCV has not issued operational rules for such systems, although according to Article 21 of the BCV law it is empowered to do so.

4.2 LOW VALUE PAYMENT TRANSFER SYSTEMS

4.2.1 Cheque Clearinghouse

The clearinghouse is operated by the BCV and has 40 participating financial institutions. This clearinghouse operates under a multilateral net settlement scheme and the resulting positions are settled at the current accounts the financial institutions hold at the BCV. The current account, also known as the single account, is also the medium through which financial institutions comply with the reserve requirement, which is fully usable during the day for payment system purposes.

The Clearinghouse operates on a nation-wide basis through two sub-clearinghouses in the cities of Caracas and Maracaibo. The Caracas sub-clearinghouse is by far the most important, as 99.9 percent of the cheques are exchanged there.

4.2.1.1 *Clearing and Settlement Processes*

The cheques issued by the clients that are received by the banks on day "T" are physically exchanged at the offices of the ABV. Cheques drawn by the financial institutions themselves on their single account at the BCV are presented right at the moment of the processing.

There are two clearing sessions: the first clearinghouse session, known also as the cheque presentation session, and the second clearinghouse session, known as the returned items session.

As a part of the first clearing session, in Caracas there are two sessions for the exchange of the documents, at 2:00 a.m. of T + 1, in which approximately 80 percent of the cheques are exchanged,

and at 5:00 a.m. of T + 1. In Maracaibo there is only one exchange session at 7.30 a.m. of T + 1. The session for the returned items occurs at 2:15 p.m. of T + 1 (see Table 7).

Table 7: Clearinghouse Hours

<i>Exchanges</i>	<i>Hours in Caracas</i>	<i>Hours in Maracaibo</i>
<u>First Clearing Session</u>		
First Exchange Second Exchange	2:00 a.m. 5:00 a.m.	7:30 a.m.
<u>Second Clearing Session</u>		
Single Exchange	2:15 p.m.	2:15 p.m.

Source: BCV.

All clearinghouse members must provide the BCV, through the authorized representatives, with a clearing spreadsheet together with two diskettes containing the information on the cheques that were presented and those that were rejected. According to this information, the BCV determines the multilateral net positions. The participating financial institutions are informed of the results once each of these processes is over.

The results of the first session are preliminary and postings are made between 7:00 and 7:30 a.m. of T + 1. The BCV affects the single account of the participants with a multilateral net debit position by blocking the necessary funds. Once the second clearing session is over, between 2:30 and 3.00 p.m. the BCV posts the final debits and credits.²³

These postings are the last records that are made in the operating day. Under certain conditions, the BCV can temporarily extend the closing hours of the cheque clearinghouse.

Finally, the accounts of the beneficiaries are credited during T + 2. Once paid, the physical cheques are not returned to the paying client. Instead, the paying bank files them.

4.2.1.2 Risk Management Mechanisms

There are no mechanisms to assure settlement at the cheque clearinghouse. There are neither automated mechanisms for participants to access credit from other banks, nor is there the possibility of current account overdrafts or automatic financing by the BCV. As previously mentioned, during the day the participants can use their reserve requirements to fulfill their payment obligations. If reserves were not reconstituted by the end of the day, the corresponding institution would find itself in a situation of non-compliance and would be subject to the sanctions regime.

Therefore, in case a financial institution is unable to fulfill its obligations by the end of the settlement cycle, the BCV unwinds the results of the clearing session. Cheques that are payable to, or to be paid by, the defaulting party are excluded. Then, the balances among the remaining participants are

²³ This schedule is extended until 4.00 p.m. every Tuesday and the second working day after a holiday.

calculated again. The defaulting institution is subject to the sanctions and corrective actions included in the Clearinghouses' System Regulation.

In case of discrepancies, if the BCV is responsible for any mistakes it, then, would credit, or debit, the current accounts correspondingly. If the difference is between the participants themselves, then the discrepancy must be solved directly among them.

4.2.2 ATMs

Most banks are members of the SUICHE 7B and Conexus ATM networks. Although these networks are interoperable, each of them settles the outstanding interbank obligations separately.

Thus, each network calculates, on a daily basis, the multilateral net balances, informs the members on the final positions and coordinates the settlement with each bank. For settlement, member banks exchange cheques that are cleared at the BCV clearinghouse, or they may order debits/credits to their correspondent accounts (*i.e.*, current accounts they hold in some domestic commercial bank who acts as settlement agent).

4.2.3 Credit Cards

The settlement of the interbank obligations stemming from credit card transactions traditionally has been performed through a commercial bank acting as the settlement agent. Every day, credit card operators send an electronic mail to the settlement agent with the resulting positions of each member bank. With this information, the settlement agent executes the corresponding debits and credits in the correspondent accounts.

Starting in May 2002, a group of seven banks created a mechanism denominated Interbank Payment System (*Sistema de Pagos Interbancarios*, SPI) in order to automate the processing of interbank obligations resulting from payments with credit cards made at EFTPOS terminals. The main features of the SPI are the following:

- Exchange of the relevant data is made through a SWIFT message.
- Data must be sent during working days, from 1:00 p.m. to 2:00 p.m.
- Relevant postings are made in the correspondent accounts.
- Each participating bank must provide its own credit cards vouchers in order for all other institutions to validate them.

The card issuer must process the payments made by cardholders within 72 hours and any rejections must be reported within 48 hours. Claims are channeled through a pre-specified e-mail address for each bank, using a single format specifically designed for this purpose. Claims must be solved within a maximum period of 72 hours.

4.3 LARGE VALUE PAYMENT TRANSFER SYSTEMS

The single account the financial institutions hold at the BCV is the most important means through which large-value payment transactions are channeled. Besides the postings related to the cheque clearinghouse, some of the most important transactions that are settled through the single account are funds transfers related to the interbank money market, government securities and the forex market, funds transfers ordered by the PDVSA, its subsidiaries and other third parties, funds collection and payments of the central government, and those transactions that involve the BCV as a counterparty, like credit assistance operations, OMOs, currency purchases and sales, and cash deposits and withdrawals.

The above-mentioned transactions are made through one of the following systems:

- Manual Procedures: Paper Payment Orders ("*Carta Orden*") or Certified Telex.
- Proprietary SWIFT ("SWIFT format DCC298").
- Funds Transfer Electronic System for Interbank Loans (SET).

4.3.1 Manual Procedures: Paper Payment Orders or Certified Telex

Institutions holding a single account at the BCV can order funds transfers from their account to any other single account at the BCV through a paper-based mechanism known as "*Carta Orden*" or through certified telex.

The BCV receives funds transfer requests in paper payment orders from 8:00 a.m. until 12:30 p.m. The hours for the certified telex mechanism are from 8:00 a.m. to 2:00 p.m.

The BCV settles the payment orders on a gross basis as it receives them. The Current Accounts Department charges the single of the paying institution and transfers the funds to the single account indicated in the corresponding payment instruction.

Paper payment instructions have same day value, and the BCV has one hour and thirty minutes to process them. In case the payment orders are sent through certified telex, value date can be either same day or another day in the future. In case of payment orders with same day value the BCV has one hour to process the transaction.

If the institution requesting the transfer does not have enough funds in its single account, the transaction is put on stand by until the necessary funds become available or until the closing of the processing day at 2:00 p.m.

On the working day following the transaction value date, the Current Accounts Department sends the corresponding credit or debit note together with the account statement, detailing the transactions that were posted in the single account of each institution.

Until 1998, these manual mechanisms together with the cheque clearinghouse were the only available means for financial institutions and public sector agencies to transfer funds from their accounts at the BCV. With the introduction of automated mechanisms for funds transfers in recent years their relative importance has been declining progressively. Nowadays, only public sector agencies and a few financial institutions, owing to the fact that they are not connected to the SWIFT network, use the manual mechanisms.

Table 8: Evolution of Funds Transfers through Paper Payment Orders and Certified Telex

	1998	1999	2000	2001	2002
Volume of Transactions	104,689	46,717	25,658	24,075	20,172
Value of Transactions (in Bs. billion)	61,119	29,587	22,581	31,276	25,442

Source: BCV.

As it may be seen in Table 8, the volume of manual transactions has decreased in approximately 80 percent since 1998, and at present the average value of a transaction of this kind stands around Bs.1.26 million, equivalent to approximately USD 950 at the exchange rate of November 2002.

4.3.2 Funds Transfers via Proprietary SWIFT

In 1998, after negotiations with the commercial banks and SWIFT, the BCV agreed to create and launch a proprietary SWIFT closed users group for the processing of large-value domestic payment transactions. The BCV designed the format DCC298, which is exclusive to financial institutions, to process interbank funds transfers.

At present, this system ("SWIFT format DCC298") is used for funds transfers affecting the single accounts of the financial institutions in the BCV, to process cash requests and to send instructions related to secondary market transactions with securities deposited in the BCV, either under a delivery-versus-payment (DVP) or free- of-payment basis. In the short term, the BCV also expects to use the SWIFT format DCC298 system for securities transactions in the primary market.

The process for funds transfers through this system begins when financial institutions send their payment instructions to the BCV. Payment instructions are then recorded in the Interbank Transfer System (*Sistema de Transferencias Interbancarias*, STI). Transactions have same-day value and are settled on a gross basis. However, besides the closing hour (2:00 p.m.) there is no specification of the moment in which actual settlement will occur. Thus, before 2.00 p.m. of day T the STI executes all payment instructions that comply with the validation parameters that have been established in the system, including the validation of the accounts to be affected, transaction value date and code validation, among others.

In case the ordering institution does not have the necessary funds in its single account at the moment of the processing by the STI, the payment instruction is put in stand by until funds become available or until the closing of the processing cycle at 2:00 p.m. After 2.00 p.m., pending operations are deleted from the system.

At present, 46 percent of the instructions ordered by financial institutions in the BCV are sent through the SWIFT format DCC298 system. Recently, however, the volume of transactions has been declining due to the launching of the Funds Transfer Electronic System for Interbank Loans (SET).

4.3.3 Funds Transfer Electronic System for Interbank Loans (SET)

The *Sistema Electrónico de Transferencia de Fondos para Préstamos Interbancarios* (SET) was developed by the BCV and was launched on January 15, 2002. Through the SET, the participants are able quote, match and settle interbank loans in real time. At present there are only overnight transactions. Nevertheless, the BCV expects to introduce other maturities in the near future.

Participants in the SET do not know their counterparties at the moment they enter their quotations of interest rates and amounts into the system and before the transactions are matched. The SET is then a "blind market", thereby enabling interest rates to better reflect the real cost of loanable funds in the market. The system has a series of parameters, which enable transactions to be matched according to the various financial terms, like quoted interest rates and the existence of credit lines among banks. It also has a "first in, first out"-type (FIFO) queuing system that allows transactions to be matched in the same order as they were entered into the system.

To operate in the SET, financial institutions grant credit lines to each other. These credit lines may be secured, unsecured or both, and are administrated by the Integrated System for Credit Lines and Collateral (*Sistema Integrado de Garantías y Líneas de Crédito*, SIGALC), which was also designed by the BCV and is owned and operated by it.

Unsecured credit lines represent the maximum amount that each participant is willing to give unilaterally to each institution it wishes to operate with in this tier. Secured credit lines represent the maximum amount that each institution is willing to give unilaterally to another institution it wishes to operate with once the unsecured credit line has been exhausted or when the latter is equal to zero. Secured credit lines are collateralized with National Public Debt Bonds or Treasury Bills.

In order to post collateral, participants must first incorporate so-called "eligible securities accounts". This is a custody account in which the securities eligible to support secured credit lines are recorded. Once a secured credit line becomes activated, the securities in the eligible securities account of the debtor are automatically transferred to the "special collateral account" of the secured counterparty. At maturity, these securities are automatically released and transferred back to the eligible securities account of the former debtor.

Each day, the SIGALC marks to market the eligible securities and verifies the remaining time to maturity of interest payments and principal.

The SET processes transactions in two different sessions. The first session goes from 8:00 a.m. to 2:00 p.m. and it corresponds to regular interbank market financing operations. The second session, from 2:30 p.m. to 3:00 p.m., is used mainly for leveling purposes.

Financial institutions are connected via TCP/IP- Frame Relay or dialed line to the SET. Quotations of interest rates and amounts are recorded immediately by the system once the participants enter them. Connected institutions have real-time information on the available bids.

In 2002, 35 percent of the instructions ordered by financial institutions in the BCV were made through the SET. On the other hand, at present 70 percent of all overnight transactions are agreed in the SET (see Table 9).

Table 9: Evolution of Automated Funds Transfers

	1999	2000	2001	2002 ^(a)
Volume of Transactions	55,098	92,064	101,983	164,912
Value of Transactions (in Bs. billion)	36,452	65,790	74,424	107,431

Source: BCV.

^(a) Includes transactions made through SWIFT DCC298 and the SET.

The BCV is planning to become a participant in the SET to offer and borrow funds to/from the market. It expects to begin doing so in the first months of 2003.

4.4 CROSS-BORDER PAYMENTS SETTLEMENT SYSTEMS

In Venezuela, the great majority of cross-border payments are made through the traditional system of foreign banking correspondents using SWIFT messages. There is no specialized or centralized system for cross-border payments. Thus, transactions are settled bilaterally among the participants.

The BCV is a member of the Latin American Association for Integration (*Asociación Latinoamericana de Integración*, ALADI), a mechanism for the settlement of cross-border payments associated with foreign trades through the Latin American central banks. A detailed description of ALADI and its functioning is provided in Section 8.5 of this Report.

4.5 MAIN PROJECTS AND POLICIES BEING IMPLEMENTED

The private banking sector and the BCV have been fostering a series of reforms to the nation's payments system.

To coordinate the actions in this area, the BCV Advisory Committee for Payment System Reform was created through the BCV Resolution of July 8, 1999. This Committee is chaired by the First Vicepresident of the BCV. Other members are CBN representatives, the Superintendent of the SUDEBAN and the President of the CNV. Three working groups or sub-committees support the Committee: (i) Legal, (ii) Standardization, and (iii) Technology.

The objectives and scope of the reform project were included in the above-mentioned BCV Resolution. The following were defined as the main objectives:

- Define, develop and launch an electronic clearing and settlement system for retail payment instruments.
- Define, develop and launch a settlement system for large-value transactions.

The Venezuela's Banking Association (ABV) has been working for various years in a project called "System for the Electronic Clearing of Payment Instruments". The BCV has been focusing its efforts in the development of this project.

At the beginning, the BCV had opted for the outsourcing of the Electronic Clearinghouse for Cheques and Other Payment Means (*Cámara de Compensación Electrónica de Cheques y Otros Medios de Pago, CCE*). Two bidding processes were held at an international level. On May 9, 2002 the Board of Directors of the BCV declared the abandonment of the bidding process and the BCV itself assumed the leading role of the project called "Development, Launch and Operation of the Electronic Clearinghouse".

The key objectives to be reached with the CCE are the following:

- Allow for electronic exchange of the data representing the documents to be cleared among the participating financial institutions, in order for the receiving institution (*i.e.*, the paying bank) to make the corresponding postings in the customer accounts using the same data that was initially entered by the originating institution, that is, under a STP framework.
- Use the single account the participating institutions hold at the BCV as the means through which the resulting CCE interbank balances will be settled.
- Provide the participating financial institutions with payment concentration, distribution and settlement services.
- Allow third parties to instruct, electronically, the financial institutions to debit their accounts and credit the accounts of third parties (receivers) at other financial institutions (receiving institutions).

The project is expected to have the following scope:

- A single system nationwide.
- Centralized process.
- The CCE's regulations and procedures will be approved by the BCV. The latter will include rules regarding participation, duties and responsibilities.
- The BCV will be the CCE operator and overseer. The BCV reserves the right to outsource the operation to a third party, even in a permanent way.

- Only cheques will be processed in the BCV in a first phase. Other electronic payment instruments (e.g., direct debits and/or direct credits) will follow thereof.
- Cheques will be exchanged physically at the beginning. Partial or full truncation might be introduced once the regulatory framework is modified accordingly.
- The CCE will cover the electronic exchange, clearing and communication of the resulting balances both to the participating financial institutions and to the BCV.

The BCV Payment System Project Office (*Oficina de Proyecto de Sistema de Pagos, OPSP*), which reports to the Vicepresident of Domestic Operations, is in charge of the coordination of all the activities related to the project. At present, this Office is working mainly in the following areas:

- Selection and implementation of the Technological Platform.
- Selection and adaptation of the infrastructure of the main and alternative processing centers.
- Definition of the organizational structure and staff requirements.
- Elaboration and implementation of plans, policies, rules and procedures.
- Adaptation of the internal systems of the BCV.
- New developments.

At present, the project is at the operational infrastructure procurement execution phase.

Financial institutions have also been working to get prepared for the launching of the new system. The CBN issued regulations regarding the specifications for bank cheques, the codes for financial institutions and the structure of customer accounts codes.

Financial institutions have made some progresses regarding the adaptation of customer accounts codes and in technological adaptations that are necessary to enable the electronic exchange of transaction data. The plan to close down 48 regional sites for the exchange of cheques has been completed. Only the Caracas and Maracaibo sites remain open for this purpose.²⁴

²⁴ CBN Rules number 2, 3 and 4, respectively.

5 SECURITIES: MARKET STRUCTURE AND TRADING

INSTRUMENTS

5.1 FORMS OF SECURITIES

Publicly offered securities can be represented by either physical certificates or book entries. The selected alternative must be applied to all the securities comprising the same issuance.

Representation of securities with book entries is irreversible, and in this case the securities must be deposited in a central securities depository (CSD). On the other hand, the CSDs can request the issuers to concentrate in a global note the individual securities that have been deposited, as long as the securities are homogeneous. The issuers are obliged to comply with this requirement.

Representation of securities through physical certificates is reversible. Physical securities already issued can later be represented with book entries once the holders of the securities give their approval for this transformation.

For certain types of securities the CNV may establish, as a necessary condition for securities to be traded in the secondary market, that they be represented through book entries.

Securities issued by the public sector and most debt securities issued by financial institutions are not subject to the CNV rules, as these securities are not governed by the SML of 1998. All government securities are under custody of the BCV. With the exception of the Vebonos, the BCV is also the CSD for government securities. By year-end 2002, 99.8 percent of the outstanding government securities were deposited at the BCV, of which 67.4 percent were dematerialized and 32.4 percent were represented by immobilized global notes. Only 0.15 percent still circulates through physical certificates.

5.2 TYPES OF SECURITIES

5.2.1 Equities

The SML defines equity shares as negotiable securities representing a percentage of the equity of the issuing company. The main types of equities are the following:

Common Shares: these securities represent the contribution of a shareholder to the total equity of a firm. Common shares have the same characteristics among them and they all grant the same rights to their holders.

Preferred Shares: they give some privileges to their holders, either with regard to voting powers, dividends or the share in equity they would be entitled to, in case the firm is closed down and liquidated.

Shares in Treasury: the rights associated with these shares cannot be exercised due to their own nature. These shares neither participate in dividend payouts or in the distribution of the equity that would result from the liquidation of the firm. Their holders neither have voting rights nor can they be accounted for as part of the quorum in general shareholder assemblies. If applicable, these shares would not have preferential rights for the subscription of new shares or for the conversion of obligations into other securities.

ADRs and GDRs: Global Depositary Receipts, (GDRs) and American Depositary Receipts can be traded at the Caracas Stock Exchange. The GDRs and the ADRs are securities represented by deposit certificates or receipts issued by a third party abroad, called the Depository, conforming to the laws of the jurisdiction where the latter is located. They are quoted in the same currency of the country where they are issued. GDRs and ADRs give rights over an underlying asset comprising a predetermined amount of shares issued by a Venezuelan firm.

5.2.2 Debt Instruments

5.2.2.1 Issued by the Public Sector

Treasury Bills: these are short-term securities issued by the National Treasury to solve temporary cash deficits and, thus, maintain a smooth flow of its payments during a given budgetary exercise. Treasury Bills are zero-coupon securities and are placed in the market place through auctions.

DPNs: the National Public Debt Bonds (*Bonos de la Deuda Pública Nacional*, DPNs) are issued by the central government. These securities represent loans to the government for the latter to invest in productive activities, to face contingencies or other cases of clear national interest or for the BCV to carry out open market operations (OMOs) for monetary regulation purposes or to cover temporary treasury deficits.

Vebonos: these securities were issued by the central government to pay a debt with university professors. This debt started to accrue after the wage-leveling processes the government implemented in 1998 and 1999. The Vebonos were assigned directly to the professors through a deposit of securities in the CVV. Vebonos may be traded in the secondary market in the BVC since February 2002.

5.2.2.2 Issued by the Private Sector

Commercial Papers: private sector firms with short-term financing needs issue these debt instruments. Maturity cannot be less than 15 days or more than 360 days.

Debentures: these securities can be either unsecured or can be backed-up with mortgages. Unsecured debentures are only backed-up with the general assets of the issuer. Mortgage-backed debentures have a first-degree claim over some real estate property of the issuing entity.

Joyas ("jewels"): these are investment trusts of internationally quoted securities. They can be freely purchased or sold at the BCV through a broker. There are three kinds of "Jewels" in the market place:

- Pearls: an investment trust comprising a portfolio of securities issued by the central government of Venezuela and denominated in Bs.
- Rubies: an investment trust comprising securities issued by the central government of Venezuela in the international capital markets and denominated in USD.
- Emeralds: an investment trust comprising shares of nine multinational firms that participate in nine different business sector all over the world.

5.3 SECURITIES IDENTIFICATION CODE

The identification code being used is the ISIN, the universal code that is used to identify the securities issued by any organization. In Venezuela, the BVC is the agency in charge of assigning ISIN codes.

In the BVC there is also another code, called Financial Instruments Classification (*Clasificación de Instrumentos Financieros*, CFI), which was developed in parallel to the ISIN to provide more information about the financial instruments. This code allows defining and classifying the instruments according to their attributes and it is formed by 6 alphanumeric characters.

The first character indicates the highest level of classification, according to the category to which the securities belong:

Equities	(E)
Debt Instruments	(D)
Rights	(R)
Options	(O)
Futures	(F)
Others	(M)

The second character specifies the various subgroups within each category, like, for example, common shares, preferred shares and others.

On the other hand, the BCV developed its own numbering system for government securities. This is a 14-digit system identifying the type of the securities, the currency in which they are denominated and provides registration information of the securities.

5.4 TRANSFER OF OWNERSHIP

Regarding the securities deposited in a CSD, on settlement date securities are transferred through electronic book entries from the securities account of the seller to that of the buyer, either among direct depositors or among one of these and a third party owner of a sub-account at the same CSD. The crediting of the securities to the direct depositor or the holder of a sub-account produces the same legal effects as the delivery of the physical securities.

Transfers are requested through written or electronic orders to the CSD, either directly by the depositors or through the stock exchanges where the corresponding transaction occurs. At present, the *Caja Venezolana de Valores* (CVV) is the only entity that provides transfer, clearance and settlement services for transactions with securities issued by the private sector, either under a DVP basis or a free-of-payment basis.

Regarding securities issued by the government and the BCV, the transfer of ownership is made through book entries at the SICET.

The case of the *Vebonos* is somewhat peculiar. These securities remain in custody at the SICET of the BCV, but they are traded at the stock exchange and the transfer of ownership is made through book entries at the CVV.²⁵

5.5 PLEDGE OF SECURITIES AS COLLATERAL

The Civil Code contains the legal underpinning for the generic pledge. However, there is no specific legal framework for pledges intended to serve as collateral for transactions in financial markets. There are also no rules regarding the form and the procedures that would be followed in case of foreclosure of the collateral due to a default.

5.5.1 Repos

It is common to guarantee financial operations through repo transactions, which in Venezuela constitute a temporary transfer of the ownership of the assets underlying the transaction.

The SML defines the repos as transactions through which the debtor (*reportado*), for a certain amount of money, transfers the ownership of publicly offered securities to the lender (*reportador*), which is then compelled to transfer back to the debtor, at a pre-specified maturity date, the ownership of the same securities or other equivalent securities, in return for the agreed price plus a premium.²⁶

5.6 TREATMENT OF LOST, STOLEN OR DESTROYED SECURITIES

Article 36 of the Rules Related to the Organization and Functioning of the CSDs states that the latter are liable for any damage, loss, mislay, deterioration, destruction or delays experienced by the depositors or sub-account holders when withdrawing the deposited securities. CSDs are also liable for any mistakes or delays in their settlement services that result in losses for the depositors.

To be able to face any of these events as well as any dishonest or fraudulent behaviors of their staff, CSDs must purchase insurance policies.

On the other hand, Article 13 of the CSDs Law states that the depositors are responsible for the authenticity of the securities they deposit in a CSD.

²⁵ In principle, it would also be possible for the CVV to handle DPNs and treasury bills.

²⁶ Article 79 of the SML.

5.7 LEGAL MATTERS CONCERNING CUSTODY

Article 21 of the CSDs Law indicates that the CSDs must create a separate account for each depositor. Whenever a depositor notifies the CSD that it is making a deposit on behalf of a third party, the CSD then has to open a sub-account for such third party. The latter is the legal owner of the securities that appear in the sub-account.

Article 28, on the other hand, states that the net worth of a CSD is made up by the goods the latter has acquired with its paid-in capital and its own investments, and, therefore, the deposited securities are not to be considered part of such a patrimony.

Article 34 of the LGBOIF states that the banks can hold in custody securities on behalf of third parties. Dematerialized securities must necessarily remain in custody at the BCV or a CSD. Article 80 of the SML gives a similar right to brokerage houses, for which purpose they must use a CSD. This same article contains the obligation for brokerage houses to dedicate a special department to custodial activities, to keep a separate accounting for these operations, to publish them together with the general balance sheet in a separate item, and to inform their clients about the funds that were invested and the securities under administration at least on a quarterly basis.

MARKET STRUCTURE AND TRADING SYSTEMS

5.8 PUBLIC OFFERING OF SECURITIES

According to the SML, a public offering of securities is any offering to the public, to sectors or specific groups that is made through any advertising or other dissemination means.²⁷

The CNV, in order to authorize a public offering, requires from the entities whose securities will be object of such an offering, the necessary information for the proper protection of the investors. The CNV must decide on the applications for the authorization to make a public offering within the 30 days following the day the application was presented.²⁸

Once the public offering is authorized, the CNV registers the securities in the RNV. This record certifies that the issue has complied with what established in the SML in this regard.²⁹

5.9 PRIMARY MARKET

In recent years, the primary market has been dominated by issuances of government securities. The BCV works as the placement agent of these issuances through its Integrated Open Market System (SIMA). For this purpose, the BCV carries out auctions or allots the securities directly. The

²⁷ Article 23 of the SML.

²⁸ The CNV can request an extension of 30 additional days. In case the CNV does not provide an answer, the application is considered approved and the securities public offering is thus authorized.

²⁹ Article 30 of the SML.

BCV also assigns government securities to particular beneficiaries as a means for the government to pay debts with such beneficiaries. The latter transactions are negotiated by the Securities Department of the BCV.

Every week the Ministry of Finance sends to the BCV the instructions for the securities it wishes to place in the market. These instructions might be adjusted every day depending on the results of the auctions and actual placements. In the instructions, the Ministry of Finance sets the general terms of the issue, including the number of the Official Gazette, Decree number, issuance number, class, the basis for the calculation of interests, face value, transaction date, settlement date, maturity, term and, if applicable, the current coupon and the accrued interests on the following coupon to be paid.³⁰

In October 2002, the amount of the outstanding government securities in the domestic market was approximately USD 8,000 million, of which the Vebonos represented nearly USD 235 million.

On the other hand, the primary market for securities issued by the private sector is much less active. At the beginning and in the middle of the decade of the Nineties a series of major initial public offerings (IPOs) of equity shares and other private longer-term debt securities issuances took place. At present, the private sector basically issues short-term commercial papers.

In recent years probably the most relevant transactions at the BVC have been several public buyout offers, including the acquisition of *Electricidad de Caracas* and *Corporación EDC* by *Inversora DS2000 C.A.* Also relevant were the public buyout offer and takeover of *Banco Caracas* by *Banco Venezuela – Grupo Santander*, the merger of *Interbank* in *Banco Mercantil*, and public takeover offer of *Mavesa* made by *Primor Inversiones*, a subsidiary of *Grupo Polar*.

5.10 SECONDARY MARKET

The BVC is the official secondary market for the securities registered in the RNV and, as far as trading activities with these instruments in Venezuela is concerned, for some international securities like Brady Bonds, ADRs and GDRs. Trading of government securities at the BVC is limited to a few securities like the Vebonos and some Export Bonds. The latter is the result of market practices, as there is no legal impediment for all kinds of government securities to be traded at the BVC. For the time being, however, government securities are traded mainly in the OTC market.

The secondary market for shares has been experiencing a major decline in recent years. Total traded value in 2001 was USD 1,388 million, a 43 percent decrease when compared to the previous year. This downward trend persisted in year 2002 (see Table 10).

Thus, in 2000 the most traded instrument at the BVC were Brady Bonds, with almost 44 percent of the total traded value, followed by the Vebonos with 27 percent and equity shares with 24 percent.

³⁰ This is applicable to DPNs but not to the Treasury Bills which are zero-coupon securities.

Table 10: Stock Market Capitalization
(in USD million)

	1998	1999	2000	2001	2002
Financial	9,682	9,098	11,098	11,644	13,384
Industrial	4,050	4,847	6,187	5,628	7,068
Miscellaneous	4,788	5,418	8,825	6,570	8,015

Source: BVC.

Finally, the relatively new instrument vehicle known as "Joyas" (*jewels*) has been experiencing a growing volume of trades since it was launched by the BVC.

5.11 STOCK EXCHANGE TRADING

5.11.1 Market Session

The market session is divided in three sub-sessions:

Pre-opening session: from 9:00 a.m. to 9:30 a.m.
 Market session: from 9:30 a.m. to 2:30 p.m.
 Post-closing session: from 2.30 p.m. to 3.00 p.m.

With the CNV authorization, the BVC changes this schedule every six months in order to better synchronize its trading hours with those of New York, where several ADRs of Venezuelan firms are traded.

Thus, in the fall-winter season the schedule is the following:

Pre-opening session: from 9:00 a.m. to 10:30 a.m.
 Market session: from 10:30 a.m. to 2:45 p.m.
 Post-closing session: from 2:45 p.m. to 3:00 p.m.

5.11.2 Types of Transactions

According to the moment in which transactions are settled they are classified as regular transactions or term transactions.

Regular transactions must be settled in T + 3. Term transactions can be settled from 1 and up to 60 working days after the day of the trade. Settlement date must be specified at the moment the bids are entered into the trading system.

5.11.3 Integrated Electronic Stock Exchange System (SIBE)

All transactions at the BVC are made through the *Sistema Integrado Bursátil Electrónico* (SIBE), an electronic trading system that allows brokers to enter buy or sell bids, the automatic assessment

of the terms of such bids and their dissemination all over the market. Public brokers working with brokerage houses operate this system during market hours, either at the BVC's premises or through a remote connection.

According to the SIBE Regulation, brokers may enter general buy and sell bids, cross orders and orders under special conditions.

5.11.4 Buy and Sell Orders

The following conditions may be established for buy and sell orders:

- *For the Best*: the order will be matched with the counterparty order with the best price once it is entered into the system. In case the counterparty order with the best price does not offer as many securities as needed, the order will then be matched only partially. The remaining portion will remain in the system with the same price that was agreed in the matched portion.
- *Held Condition*: it allows an order to be executed during the day it was entered into the system within the maximum price variation range that is permitted. If the order was satisfied only partially, the rest remains in the system for one additional day and it is subject to the same conditions as before.³¹
- *Everything or Nothing*: orders are to be matched only for the exact amount of securities that was specified at the moment the transaction was entered into the system. Otherwise, they will be deleted from the system.
- *Minimum Execution*: this condition allows specifying a minimum amount of securities to be traded. Thus, trades will be matched as long as there is a counterparty order with at least as many securities as required in the first one. Otherwise, the order will be deleted from the system.
- *Execute or Cancel*: it allows trading as many securities as they are available in the market at a specific price. If the order was satisfied only partially, the remainder is deleted from the system.
- *Hidden Volume*: this condition allows entering an order into the system showing only part of the volume to be traded. The remaining part remains hidden at the discretion of the ordering party. Once the shown volume is matched and executed, the rest will be considered as a new order under the same condition (*i.e.*, hidden volume). This type of bid is valid only for the session of the day in which it is entered into the system.

5.11.5 Cross Orders

These are buy and sell orders that are entered by the same broker since the latter has received buy and sell orders, associated with the same securities and at the same price, from two of its clients.

³¹ Maximum price variation ranges might change every day.

These orders can be entered directly into the system through the specific module available for this purpose, which allows the bids to be matched as long as they represent the best buy/sell price or if they are within a certain price range. If volume exceeds a previously determined parameter, the system will not process the order automatically. Instead, the transaction is sent to the Markets Division of the BVC for verification.

5.11.6 Orders Under Special Conditions

Orders under special conditions are processed automatically as long as there is a counterparty order with similar or complementary conditions.

5.12 OVER THE COUNTER MARKET (OTC)

Banks and brokerage houses can trade government securities in the OTC market, and for the settlement of the transactions they use the SICET operated by the BCV. The OTC market for government securities and the clearance and settlement procedures are described in detail in Chapter 7 of this Report.

Commercial paper issuances of the private sector are also traded in the OTC market. These issuances are represented with physical certificates, generally a global note deposited with an authorized custodian.³²

There is no precise information about the latter market regarding traded volumes or values. However, it is worth mentioning that due to the lack of depth of the secondary market, in most cases the original holder of the securities keeps them until maturity.

5.13 RECENT TRENDS

The Ministry of Finance, the Caracas Stock Exchange and the BCV are working together on a project to improve the secondary market of government securities. This project is explained in detail in Section 7.4 of this Report.

³² If these securities were de-materialized, according to the Law they should be deposited in a Securities Bank.

6 CLEARANCE AND SETTLEMENT CIRCUITS FOR CORPORATE SECURITIES

6.1 ORGANIZATIONS AND INSTITUTIONS

6.1.1 Caracas Stock Exchange

The *Bolsa de Valores de Caracas* (BVC) is a private institution organized as an open stock corporation. By the end of 2002, its capital amounted to USD 3,200,535 and it had 63 shareholders, mainly brokerage houses. This is the only stock exchange operating in the Venezuelan territory at present.

6.1.2 Venezuelan Securities Depository

The current private CSD, the *Caja Venezolana de Valores S.A.* (CVV), was created in 1992 by initiative of the BVC. It started operations in 1996 once the CSD Law was enacted in that same year. The initial capital of the CVV was set at Bs. 1,200 million, approximately USD 900,000 at the exchange rate of November 2002.

According to the CSD Law, brokerage houses, banks, insurance companies and other individuals may become CVV shareholders. The CVV does not have a mutual structure. Therefore, not all participants are shareholders and *vice versa*. At present, ownership of the CVV is concentrated in six large shareholders. The CVV and a private bank, the *Banco Venezolano de Crédito*, who is also a major shareholder, share the same mainframe for their computer systems, although it is not possible for the bank to access the information of the CVV or the other way around.

At present, the CVV holds in deposit equity shares and the Vebonos in a system of direct depositors and sub-accounts. As of October 2002, there were 84 direct depositors and 77,654 sub-account holders.

6.2 SECURITIES REGISTRATION AND CUSTODY PROCEDURES

6.2.1 Registration in the Securities National Registry

Once a securities public offering is authorized, the CNV registers these securities at the Securities National Registry (*Registro Nacional de Valores*, RNV), which is administered by the CNV itself. The issuers must launch the public offering of their securities within three months following the date their securities were registered in the RNV.

6.2.2 Securities Registration and Custody with the CVV

All depository services must be directly provided by the CVV. For custodial services, the CVV may outsource this service to banks and other authorized financial institutions.

Regarding the securities that are traded at the BVC, equity shares, Vebonos, Export Bonds and the commercial papers are deposited in the CVV. As the Central Bank of Venezuela is the custodian of the Vebonos, the CVV operates this deposit through an account it has in the SICET, *i.e.*, the custody system of the Central Bank.

Investors willing to buy or sell securities with the BVC must first sign a stock exchange intermediation contract and open an account or a sub-account at the CVV. Each bank and brokerage house of the country holds an account at the CVV, while individual investors must open a sub-account through a CVV member bank or brokerage house.

Depositors must also sign a deposit contract with the CVV. According to the CSD Law, securities deposits are perfected as follows:

- In case of bearer securities, with the physical delivery of the securities by the respective depositors.
- In case of securities to the order, through an endorsement in administration of the securities in favor of the CVV.
- In case of nominative securities, by yielding them to the CVV. This action must be registered both in the securities as well as in the records of the issuer.
- In case of dematerialized securities, through transfers between the relevant accounts or through another procedure as determined by the CNV.

6.2.3 Administration of the Deposited Securities

The CVV administrates the deposited securities according to the terms and conditions that were established in the corresponding securities deposit contracts. Depositors may empower the CVV to exercise any patrimonial rights on their behalf.

Whenever cash is needed in order for the CVV to exercise any subscription or optional rights stemming from the deposited securities, the depositor must notify the CVV about its will to exercise such rights and must provide the necessary funds to the latter at least two working days before the expected payment date.

Finally, the CVV cannot represent any person at shareholder meetings, any creditor meetings or other meetings in which investment decisions are to be taken regarding the deposited securities.

6.2.4 Transfer of the Deposited Securities

Once the securities deposit has been perfected, transfers of the deposited securities are executed through electronic records transferring securities from one account to another. If the securities are represented by book entries, legal ownership is determined according to the records of the CVV. In the case of equity shares, however, as these are represented by physical certificates, legal ownership

is determined on the basis of the shareholder records of the issuer, which are administrated by the so-called "Transfer Agents" (*Agentes de Traspaso*).

The CVV must provide to each direct depositor and to sub-account holders account statements, in paper or through electronic means and as often as determined by the CNV, reflecting the detail of the purchases and transfers that were made in the accounts and/or sub-accounts.

6.2.5 Registration of Liens over the Deposited Securities

Direct depositors and sub-account holders may create liens or real rights over the deposited securities. For this purpose, written notice of the depositor whose securities are being affected by the lien is required in order for the CVV to record the relevant lien in the corresponding account(s) or sub-account(s). Liens and real rights become effective only after the CVV has recorded them.

A written notice of the creditor or the competent judicial authority is needed in order for the CVV to release any liens or real rights, which in turn is needed for the underlying securities to become transferable once again.

6.2.6 Securities Withdrawal

As long as there are no pending transactions, the CVV must return to the depositors or sub-account holders the deposited securities, having to deliver securities of the same issuer, species and quality, and that give the same rights within their class.

If securities are represented by global notes, the CVV, directly or through the relevant custodian, requests the issuer to replace such a note with a certificate representing the securities to be withdrawn and another global note representing the securities that still remain in deposit.

6.3 SECURITIES CLEARANCE AND SETTLEMENT PROCESS

The BVC uses a T+3 settlement cycle and the securities and the funds are settled independently. The securities leg is settled on a gross basis in the CVV and the cash leg is settled on multilateral net basis in a commercial bank through the BVC itself.³³

The trading system of the BVC, the SIBE, automatically matches and confirms the transactions that were entered by the brokerage houses. During the trading session once an operation has been matched and confirmed a brokerage house can still cancel it as long as the counterparty does not object such an action. Once the trading session is over, transactions cannot be cancelled anymore.

At the end of the trading day, the BVC informs its members and the CVV on the details of the transactions through several means. In the case of the brokerage houses, this information is sent through electronic mail, diskettes or fax. Communication with the CVV is made via modem and the latter confirms reception via fax.

³³ Commercial papers that are traded in the BVC are settled in a different way. The securities leg is settled gross at the CVV and the cash leg is settled bilaterally among the relevant counterparties.

The BVC sends the CVV a file containing the transactions that were matched. The CVV then validates these transactions and registers them in its system. As shares are nominative securities, the brokerage houses must provide a set of details about the buyers (*e.g.*, official identification number) in order for the CVV to be able to make the securities transfer. The CVV then responds and informs on the transactions it was not able to perform due to insufficient information or because of lack of securities in the account of the seller. This process is repeated once again in T + 2. If up to this moment the transfer cannot be completed, the corresponding transaction is excluded from the overall settlement and it is postponed.

For those transactions that have been validated, the CVV transfers the securities on a gross basis at 6:00 a.m. of T + 3. On the same day, at 8.30 a.m. it informs the BVC on the transfers that were actually made.

The BVC then generates an electronic file with the multilateral net positions for the cash leg of the transactions and sends it via modem to the commercial bank acting as the settlement agents. The participants with a multilateral net debit position have until 2:00 p.m. of T + 3 to fund their accounts with the settlement agent.

6.4 GUARANTEE SCHEMES

If the unfulfilling party is the buyer, the BVC covers the position through a credit line it has with the settlement agent.

The stock exchange requires its members to create a general guarantee fund (*i.e.*, not only for settlement purposes). At the end of 2002, the general fund amounted to approximately USD 550,000. If the problem persists, the BVC uses the portion of the fund belonging to the unfulfilling brokerage house.

If the unfulfilling party is the seller, the latter has 48 additional hours to solve the problem and settlement occurring in T + 5 would still be considered as valid. If the problem persists, the BVC then starts a buy-in procedure at market prices. The unfulfilling party absorbs all the costs associated with the buy-in procedure.

6.5 SECURITIES LENDING

For the operations executed in the BVC there are no automatic securities lending facilities in support to settlement.

6.6 DERIVATIVES CLEARANCE AND SETTLEMENT

In Venezuela derivatives trading is incipient and, although already regulated in the SML, no clearance and settlement institutions have yet been established for these instruments.

6.7 INTERNATIONAL LINKS AMONG CLEARANCE AND SETTLEMENT INSTITUTIONS

The CVV does not have any links with other CSDs throughout the world.

7 CLEARANCE AND SETTLEMENT CIRCUITS FOR GOVERNMENT SECURITIES

7.1 ORGANIZATIONS AND INSTITUTIONS

7.1.1 Central Bank of Venezuela

The BCV is the financial agent of the national government and in this capacity it can act as placement or settlement agent of domestic public credit transactions. In practice, the BCV places in the primary market the issuances of National Public Debt Bonds (DPNs) and Treasury Bills, following the instructions of the Ministry of Finance.

On the other hand, the BCV is the custodian of all government securities and the settlement agent for transactions made with these securities (except for the Vebonos) in the primary and secondary markets. In order to fulfill these functions, the BCV has developed several systems, which are described in Section 7.2 below.

7.1.2 Venezuelan Securities Depository

Regarding government securities, the CVV is the depository of the Vebonos. Nonetheless, the BCV is the custodian of these securities, for which reason the CVV is a participant at the SICET, holding an omnibus account whose balance belongs completely to third parties. The CVV then identifies individual holders through sub-accounts in its own system. On the dates interest payments are due, the BCV credits the current account of the CVV and the latter then pays the final beneficiaries through a commercial bank.

The CVV is also the custodian of the Export Bonds issued by the government. For this purpose it holds a custody account on behalf of the Foreign Trade Bank (*Banco de Comercio Exterior*) and sub-accounts for the final beneficiaries.

7.1.3 The Caracas Stock Exchange

The Vebonos and the Export Bonds are traded at the BVC. Settlement of the cash leg is identical to that of the securities issued by the private sector (see Chapter 6).

7.2 BCV SYSTEMS FOR THE CUSTODY, TRADING AND SETTLEMENT OF GOVERNMENT SECURITIES

7.2.1 Integrated Open Market (SIMA)

The SIMA is used by the BCV as the financial agent of the national government to channel primary market operations of DPNs and Treasury Bills as well as for the OMOs the BCV undertakes as the monetary authority. Transactions are made off-line, although the SIMA has an interface with the current accounts system and with the SICET, which allows transactions to be settled on a DVP basis.

7.2.2 Integrated System for the Electronic Custody of Securities (SICET)

The development of the SICET goes back to 1998 when the BCV designed and launched the Dematerialized Securities Administration System (*Sistema de Administración de Títulos Desmaterializados*, SATD). Through the SATD, the BCV managed the securities positions and funds transfers of the institutions participating in the primary and secondary markets of the dematerialized securities issued by the Central Bank.

In 1999, after several cases of fraud due to the counterfeiting of physical securities issued by the government, the BCV developed the Securities Integrated System (*Sistema Integrado de Valores*, SIV) for the electronic custody of these securities. Currently, the only functions of the SIV are the registration of new public debt issuances and payment orders and the placement of the Tax Returns Certificates (*Certificados de Reintegro Tributario*), as well as performing the custody of the physical securities still in circulation.

In 2001, the BCV developed the SICET for the custody and transfer of the ownership of government securities represented by immobilized physical securities and/or dematerialized securities, as well as for those securities issued by the BCV itself.³⁴ This system provides a more efficient means to channel primary as well as secondary market transactions. It has also helped to increase safety and, thus, the overall confidence of the participants in these securities. Table 11 presents the holdings of securities at the SICET.

Table 11: Government Securities in Custody in the SICET
(in Bs. million, as of October 2002)

<i>Type of Custody</i>	<i>Value</i>
Electronic	9,646,097.3
Dematerialized	6,513,834.0
Immobilized Global Notes	3,132,263.3
Physical	14,348.8
Total	9,660,446.2

Source: BCV.

The following transactions can be made at the SICET:

- Registration of the general positions (issuances), which contain the set of financial conditions determined by Ministry of Finance or by the BCV.
- Registration of the individual positions purchased in the primary market, which occurs automatically once transactions are settled using the instructions generated by the SIMA.
- Buy and sell orders generated through the SIMA and the SICET itself.

³⁴ Securities represented by global notes are treated in the same way as fully dematerialized securities.

- Free-of-payment securities transfers.
- Interbank repos and repos with the BCV. The second leg of the transaction is executed automatically at maturity.
- Registration of liens to comply with any legal requirements or to collateralize BCV credit assistance operations or funds transfer transactions.
- Automatic payments of rights and other periodical returns, once the BCV receives the relevant payment order in case of public debt issuances.

In order to participate in this system the financial institutions must have a current account with the BCV and be registered in the BCV General Registry for Securities Transactions (*Registro General para Operaciones con Títulos*) and in the Public Securities Registry (*Registro de Títulos Públicos*) of the Ministry of Finance.

7.2.2.1 Account Types

The participants have direct access to the SICET and they can classify their positions in custody accounts on their own behalf or on behalf of third parties. For the latter, the participants can make further distinctions like resident or non-resident individuals, resident or non-resident financial institutions, other resident or non-resident firms, trust accounts, guarantee accounts and others.

Accounts may be of a "free trading" or "special trading" type. The special trading accounts contain pledged securities or those securities that are subject to special legal requirements. Both types of accounts are structured in such a way that permits the simultaneous identification of the institution to which the securities belong to and the conditions under which such securities are held in custody.

7.2.3 Integrated System for Credit Lines and Collateral (SIGALC)

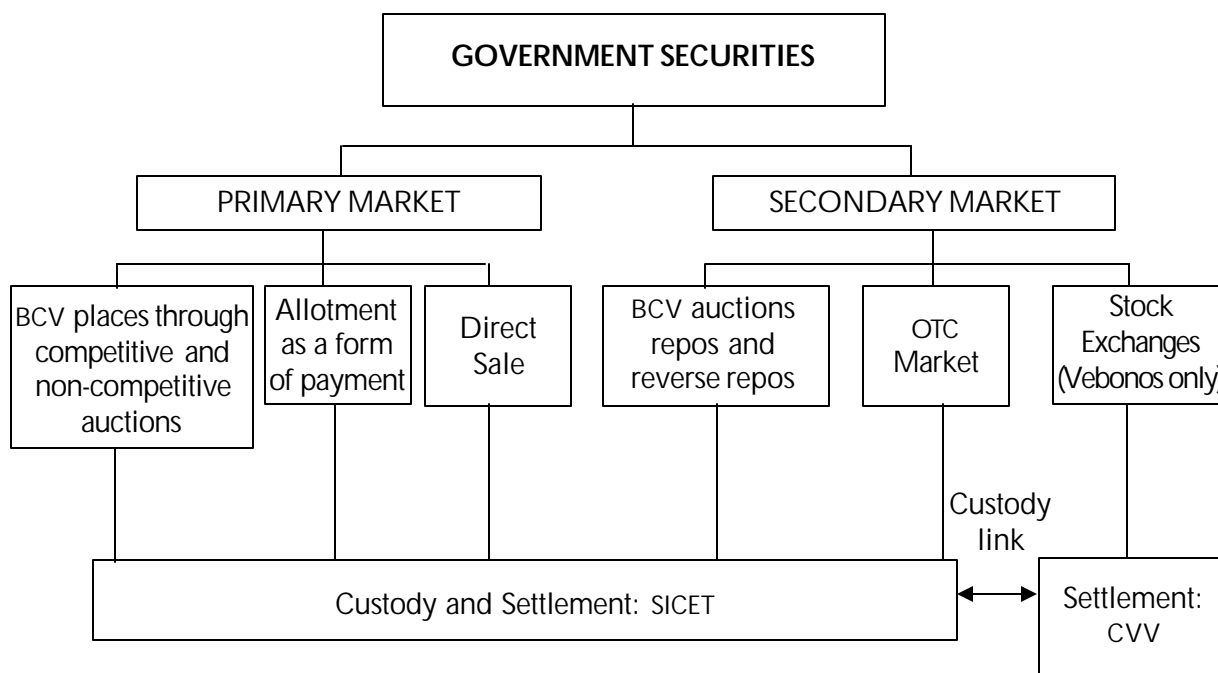
The BCV launched the *Sistema Integrado de Garantías y Líneas de Crédito* (SIGALC) in 2002. The SIGALC allows the participants to assign credit lines to each other. It is also a system for the marketing-to-market of the securities that serve as collateral for the funds and securities transactions the participants make at the Funds Transfer Electronic System for Interbank Loans (SET). In the near future the SIGALC will also give support to the transactions made at the Credit Assistance System (ASICRED) and to the program for the rescheduling of public debt maturities (for more details see Section 7.4 below).

To operate in the SET, the authorized financial entities must create credit lines, either secured, unsecured or both. Secured credit lines are collateralized with DPNS or Treasury Bills and are managed by the SIGALC.

7.3 SECURITIES CLEARANCE AND SETTLEMENT PROCESS

The general structure of the government securities market as regards trading, custody and settlement is shown in Chart 1.

Chart 1: Custody, Trading and Settlement of the Transactions with Government Securities



Source: BCV.

7.3.1 Primary Market

Except for direct sales and securities allotments as a form of payment, government securities are placed in the primary market through auctions through the SIMA. The participants make their bids over the telephone and BCV officials enter this information into the SIMA.

As shown in Table 12, government securities issued in the primary market have different settlement cycles, even for the same type of instrument. If not all the securities included in the same issuance were placed, the Ministry of Finance can decide to hold extraordinary auctions.

The SIMA settles primary market transactions on a DVP basis through interfaces with the SICET and with the current accounts system of the BCV.

7.3.2 Government Securities Secondary Market

In its role as monetary authority, the BCV undertakes several transactions in the secondary market through OMOs. On the other hand, there is an interbank secondary market of government securities, which is basically a telephone OTC market.

The BCV mainly enters into repo and reverse repo transactions, as well as direct purchases or sales of securities purchases and sales with the financial intermediaries (for more details see Chapter 8).

**Table 12: Placement and Settlement of Government Securities
in the Primary Market**

<i>Placement mechanism / Instrument</i>	<i>Frequency</i>
Auction	
Treasury Bills	Tuesdays, Wednesdays, Thursdays and Fridays (every week). <i>Tuesdays placements: trade date = T and value date = T + 1.</i> <i>Wednesdays placements: trade date and value date = T.</i> <i>Thursdays placements: trade date = T and value date = T + 1.</i> <i>Fridays placements: trade date and value date = T.</i>
<i>Trade Date and Value Date</i>	
DPNs	Wednesdays, Thursdays and Fridays (every week). Wednesdays placements: trade date = T and value date = T + 1. Thursdays placements: trade date = T and value date = T + 1. Fridays placements: trade date and value date = T.
<i>Trade Date and Value Date</i>	
Direct Sales	
Treasury Bills and DPNs	No Specific Frequency
<i>Trade Date and Value Date</i>	Trade Date = Value Date

Source: BCV.

Note: The trade dates and value dates shown in this Table can change according to the instructions given by the Ministry of Finance.

Transactions are channeled through the SIMA and processing is similar to that of the transactions in the primary market.

The BCV performs these transactions on a daily basis between 11:00 and 11:30 a.m. The participants handle their bids over the telephone and BCV officials enter this information into the SIMA. The SIMA automatically validates the matched transactions through its interface with the SICET and sends confirmations to the participants via SWIFT before 1:30 p.m. of the trade date (day T).

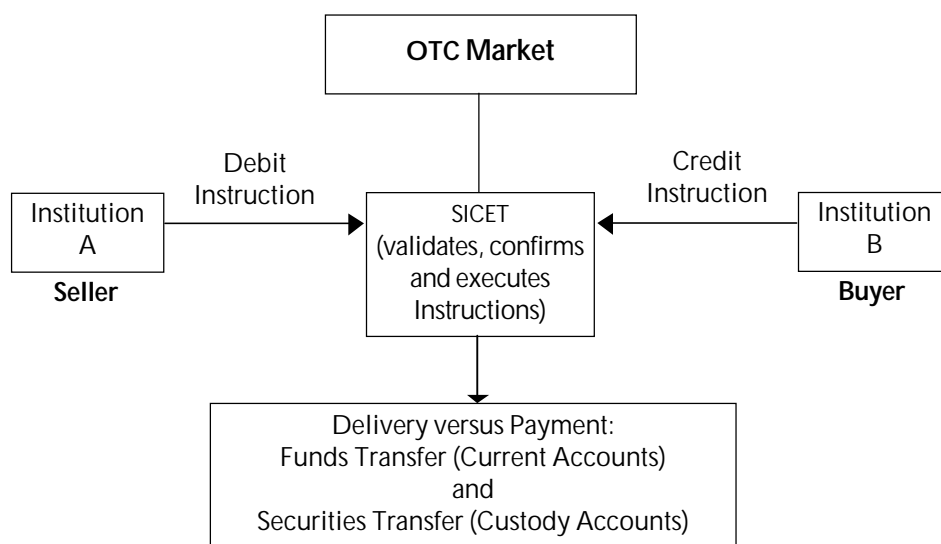
The BCV uses a T+0 settlement cycle for these transactions and settlement occurs no later than 1:30 p.m.

In the interbank secondary market, on the other hand, participants generally make their bids over the telephone. Once the parties agree on a transaction, each of them sends its order to the SICET, where the transfer of ownership occurs.

The SICET operates on a daily basis from 8:00 a.m. to 12:00 p.m. Participants can send instructions from their remote stations during these hours. Transaction confirmation is made over the phone and payment instructions are sent through the proprietary SWIFT system or through certified telex.

All transactions that imply postings to the securities positions and/or funds transfers require two instructions: a credit instruction to be sent by the institution buying the securities and a debit instruction to be sent by the seller of the securities. If the necessary information is complete, the SICET validates and confirms the transactions automatically and proceeds to execute settlement.³⁵

Chart 2: Flow Chart of the Settlement Process of Government Securities in the OTC Market



Source: BCV.

Unconfirmed transactions or those with insufficient balances remain pending and at the end of the day they are deleted from the system. For transactions among financial institutions the BCV does not take on any counterparty risk. In case of a default the relevant institutions must solve the problem among themselves. For the transactions it acts as a counterparty of some financial institution, if the latter defaults on the transactions it becomes subject to the sanctions regime.

7.4 MAJOR PROJECTS AND POLICIES BEING IMPLEMENTED CONCERNING CUSTODY, CLEARING AND SETTLEMENT

7.4.1 Massive Debt Exchange or the Re-Scheduling of Maturities of the Public Debt

Recently the BCV has been developing the Exchange System (*Sistema de Canje*), which will allow participating institutions, in real time through on line electronic means, to incorporate securities eligible for exchange, desincorporate securities, enter bids for new bonds purchases and make inquiries. For settlement purposes as well as for the generation of new custody positions, the Exchange System has interfaces with the current accounts system, the SIGALC and the SICET.

³⁵ At present there are no rules regarding the moment in which the parts must send their orders to the SICET, for which there's uncertainty about the operations to be confirmed and settled.

7.4.2 Public Debt Secondary Market

The Ministry of Finance, the Caracas Stock Exchange and the BCV are working together in a project to improve the secondary market of the national public debt. At first, it is being considered that the Caracas Stock Exchange will become the operator of the new project under an outsourcing contract with the Ministry of Finance.

In the first phase of this project three markets will be created: i) reference prices; ii) agreed prices; and, iii) cross transactions. The reference prices market entails putting together the purchase and sale prices that the individual banks publish in their corresponding pages in Reuters in a centralized information site. Later on, and on the basis of these prices, the participants will be able to make trades with prices agreed through a bilateral OTC market. Prices will be published in real time and all institutions will contribute on similar grounds to price formation in the secondary market. The authorities also expect a cross transactions market to develop in parallel to the former.

In a second phase, a blind market will be created with settlement occurring through book entries with same day value. To eliminate counterparty risk, participating institutions will have to register at the SIGALC the securities they are willing to trade, and in a sub-account of the current account systems they will register the available funds for purchases. The system will verify in real time the existence of securities in the SIGALC if it receives a "sell" instruction, and the existence of the necessary funds in case it receives a "buy" instruction. Bids will only be accepted upon full availability of the necessary securities or funds or securities. Thus, whenever the participants see on their screen a buy or sell quotation they will know settlement is assured.

At all times the BCV will act as the custodian and settlement agent under DVP conditions, through the linkage of the systems of the Caracas Stock Exchange with those of the BCV (*i.e.*, the SICET, the SIGALC and the Current Accounts System). Both the securities and funds will be settled on a gross basis (DVP Model I of the BIS).³⁶

7.4.3 Other Projects of the Ministry of Finance

The Ministry Finance is developing together with private sector firms a system for the electronic auction of government securities. The system integrates the Ministry of Finance, banks, brokerage houses, the CVV and the Caracas Stock Exchange.

On the other hand, in order to enhance the depth of the public debt market the Ministry of Finance is currently working on several projects. Important efforts are underway to fully standardize securities and to unify the settlement cycle. Also, a centralized trading platform is being developed for the secondary market of government securities. The Ministry of Finance will authorize the operation of the so-called market makers as a key element in this new system and the Ministry of Finance itself is planning to undertake the role of central counterparty. In order for the Ministry of Finance to manage the counterparty risks associated with its new role, the new system will have cash and securities guarantee funds as well as modules for collateral administration and valuation.

The BCV will remain as the custodian and settlement agent for the transactions in the new system.

³⁶ "Delivery-versus-Payment in Securities Settlement Systems", Committee on Payment and Settlement Systems of the Central Banks of the Group of Ten Countries, Bank for International Settlements, September 1992.

8 THE ROLE OF THE CENTRAL BANK IN CLEARANCE AND SETTLEMENT SYSTEMS

8.1 SETTLEMENT

The single accounts or current accounts at the BCV are the principal means through which the large value payment transactions are channeled among financial intermediaries and other account holders in the BCV.

Some of the major transactions that are channeled through the single account are the results of the cheque clearinghouse, funds transfers related to the interbank money market, government securities and the forex market, funds transfers ordered by PDVSA, its subsidiaries and other third parties, funds collection and payments of the central government, and those transactions that involve the BCV as a counterparty.

Regarding payment systems operated by other entities like payment cards and ATMs, the BCV currently does not intervene directly in the settlement process.³⁷

8.2 THE RISK CONTROL POLICY

Payment systems at the BCV operate through the mobilization of bank reserve requirements, which must be reconstituted at the end of each working day. Participants, however, may hold excess reserves for payment system purposes.

At the cheque clearinghouse participants cannot make current account overdrafts in case they are facing difficulties to fulfill their payment obligations. There is no automatic access to BCV credit or an automated system for interbank loans specifically designed for this purpose. Thus, in case a financial institution is unable to fulfill its obligations at the closing hour the BCV unwinds the result of the clearinghouse. It excludes the non-fulfilling institution and calculates once again the net multilateral positions of the remaining participants.

Payment transactions that are channeled through any of the gross settlement system of the BCV (Paper Payment Orders, Certified Telex, SWIFT DCC298 and the SET) are processed only if there are enough funds in the single account of the originator.

Regarding liquidity risk, at present there are no mechanisms through which financial institutions may access the credit of the Central Bank for payment system purposes. The BCV does inject and withdraw liquidity to/from the money market on a regular basis (see Table 13) through OMOs, but these transactions are actually part of the overall activity to achieve its final monetary policy objectives.

³⁷ As mentioned in Chapter 4, for settlement purposes these systems generally use correspondent accounts at one or more commercial banks, or the outstanding interbank obligations are settled through cheques that are channeled to the BCV cheque clearinghouse.

On the other hand, as a lender of last resort the BCV provides a facility known as the "Credit Assistance Mechanism". This mechanism is described next.

8.2.1 Credit Assistance or Last Resort Liquidity Injection

The BCV provides last resort credit assistance to financial institutions with a temporary liquidity deficit once the latter have extinguished all other alternatives, *i.e.*, liquidating their foreign exchange positions, the interbank money market and other liquidity facilities the BCV provides through its OMOs Operation Desk. Last resort credits may take the form of funds advances, repos, discounts and/or re-discounts.

Credits are granted for 30 days and may be rolled over only once under the original terms and for the same period. Additional rollovers up to 90 days are possible although under new terms to be determined by the BCV Board of Directors.

The BCV Law states that credit operations must be collateralized with high quality securities. The amount of the credit is thus based on the maximum possible value of the securities, as determined by the BCV through a valuation process.³⁸ In recent years, the funds advances and repos have been collateralized with government securities. For the discounts and the re-discounts the eligibility of the securities is determined on a case-by-case basis through legal and financial revisions. Securities issued by insurance companies, finance companies, foreign exchange houses, secondary market intermediaries and savings and loans institutions are not eligible anyway.

Financial institutions that have been granted a last resort credit from the BCV can no longer participate in the auctions and direct allotments of securities issued by the BCV or the central government, nor can they grant loans in the interbank market.

The BCV charges an interest rate over the amount of the loan. The BCV Board of Directors sets this rate at inception and revises it periodically thereafter.

At maturity, the BCV charges the relevant amount through the Generic Module of the Current Accounts System.

At present, the operational procedures for last resort credits are paper intensive as they involve the exchange of application letters, a promissory note, a list of the securities intended as collateral, the minutes of the BCV Board session in which the latter authorizes BCV staff to execute the transaction and others. Physical securities intended as collateral must be delivered to the BCV 72 hours in advance.

To reduce the burden, the BCV is developing the Credit Assistance System (*Sistema de Asistencia Crediticia*, ASICRED). The ASICRED will entail the dematerialization of the processes and documents and only a commitment letter will be required. The financial institutions will be able to post

³⁸ Nevertheless, there are approval levels in function of the percentage represented by the requested amount with reference to the reserve fund of the requesting entity.

collateral in real time through the SIGALC and loans will be approved on line, subject to the approval limits that are established by the BCV Board. Last resort credits will be processed only after all interbank markets are closed for the day.

8.3 MONETARY POLICY AND PAYMENT SYSTEMS

Article 318 of the Constitution of Venezuela indicates that the BCV is the entity in charge of definition and execution of the monetary policy, whose main objective is to achieve price stability.

Since February 2002, in Venezuela there is a free flotation of the exchange rate. This has enabled the BCV to improve its autonomy and efficiency for the execution of the monetary policy. In the current scheme, the BCV sets a band for the monetary base as an intermediate variable. On the other hand, intervention over interest rates through the reserve requirement and through OMOs is used as the operational variable. Table 13 depicts the schedule of the interventions of the BCV for monetary policy purposes.

Table 13: Schedule of the Interventions of the BCV as Monetary Authority

	<i>Intervention</i>	<i>Settlement</i>
Reserve Requirement		
<i>Creation</i>	Mondays to Fridays	$T^{(a)} + 0$
<i>Deficit</i>	Any time	$T^{(a)} + 1$
<i>Remuneration</i>	Weekly	$T^{(a)} + 3$ (Mondays following the last day for creation)
Open Market Operations		
<i>Injection</i>	Mondays to Fridays, from 11:00 to 11:30 a.m.	$T^{(a)} + 0$
<i>Absorption</i>	Mondays to Fridays, from 11:00 to 11:30 a.m.	$T^{(a)} + 0$
Credit Assistance Operations	Any time	$T^{(a)} + 0$

Source: BCV.

^(a) T represents the day of intervention or the day of the trade.

8.3.1 Reserve Requirement

Article 53 of the BCV Law states that the banks and other financial institutions must hold a reserve to be determined by the BCV on the basis of its monetary policy objectives. The reserve must be denominated in legal tender, except for the reserve backing liabilities denominated foreign currency for which the BCV will determine the authorized currency or currencies.

Some of the recent Resolutions of the BCV regarding the reserve requirements are summarized in Table 14.

At present, according to the Reserve Resolution N° 02-03-03, the commercial, universal, investment and mortgage banks as well as the leasing firms and the savings and loans entities must hold reserves equal to at least 15 percent of the amount of their liabilities. A portion of the reserve

requirement equal to 4 percent of the liabilities subject to the ordinary requirement accrues an interest rate equal to weighted average of the interest rate that commercial and universal banks paid over the savings and term deposits during the week immediately before the constitution of the reserve.

Table 14: Recent Resolutions of the BCV regarding the Reserve Requirement

<i>Number</i>	<i>Date</i>	<i>Description</i>
02-06-01	06/6/2002	Reduction of the reserve ratio for Savings and Loans Entities, up to a maximum of 10 percent, according to the losses produced by indexed mortgage loans.
02-03-03	21/3/2002	A single reserve ratio is set at 15 percent. The remunerated portion is reduced to 4 percent.
02-03-02	21/3/2002	The 3 percent ratio for the liabilities that were received from intervened banks is maintained as long as those institutions collaborate throughout the liquidation process.
01-08-01	9/8/2001	Special Reserve of 30 percent over the official deposits.
99-08-03	31/8/1999	The coefficient of the remunerated reserve is raised to 6percent for the Universal, Commercial, Mortgage, Investment and Financial Leasing Banks.

According to the current rules, individual reserve positions are determined over a five-day period, from Monday to Friday, on the basis of the daily average balances of the liabilities subject to reserve requirement. The information for the calculation of the reserve must be received by the BCV within the first two working days of each week. If not, the BCV applies a special reserve requirement.

To those institutions that do not hold in deposit the total of the reserve requirement between the first and the last working day of the week, the BCV applies a penalty interest rate over the deficit. The latter rate is equal to the interest rate the BCV charges in its credit operations³⁹ plus 1000 basis points.⁴⁰

Regarding the reserve in foreign currency, the BCV designated a financial institution in the USA to act as its correspondent for the management of this reserve.

8.3.2 Open Market Operations

Open market operations (OMOs) are a key tool for the BCV to expand or reduce the monetary base in order to achieve its monetary policy goals.

³⁹ As of December 2002, this rate was approximately 40 percent.

⁴⁰ The penalty rate can rise by 1000 additional basis points if the deficit occurs 3 or 4 times in a single month or even 2000 additional basis points if it occurs 5 or more times in a single month.

Since the adoption of a free flotation regime for the exchange rate, the BCV simultaneously makes repos, reverse repos and sales of certificates of deposit (CDs) issued by the BCV itself. Repos and reverse repos are made with government securities as the underlying asset.

8.3.2.1 Injection of Liquidity

The BCV buys securities from financial institutions to inject liquidity into the economy. These transactions indirectly support the continuity of the payments system. Purchases may be of a temporary nature (*i.e.*, through a reverse repo) or final outright transactions.

The BCV sets the interest rates following the guidelines of the BCV authorities and allots the full amount that is requested by the financial institutions. Since September 2002, only transactions with maturities of 14 and 28 days are made. Universal banks, commercial banks and the savings and loans entities that are registered in the BCV's General Registry for Securities Transactions may participate in the auctions.

Placement Mechanism

The BCV publishes the details of the auction at its website and through Reuters and Bloomberg. Authorized financial institutions communicate through the phone with the Operations Desk of the BCV between 11:00 and 11.30 a.m. to indicate the desired maturity, face value and the codes of the securities intended as underlying assets of the transaction. The codes are used in the SICET to distinguish the securities.

Process is supported by the SIMA. The results are published through the electronic means available for this purpose and at the same time the operators of the Operations Desk inform the allotted institutions over the phone. The financial institutions must then send their confirmations via SWIFT or Certified Telex before 1:00 p.m.

Once the BCV receives the confirmations, on settlement date it makes the relevant posting in the single account and on the securities account in the SICET. At maturity, the BCV makes the opposite transaction before 11:00 a.m.

8.3.2.2 Absorption of Liquidity

The BCV sells securities from financial institutions to drain liquidity from the financial system. Securities sales are temporary nature (*i.e.*, through a repo transaction).

The participants and the placement mechanism are similar to those described above for transactions intended to inject liquidity into the system. In this case, however, the financial institutions only communicate to the BCV Operations Desk the desired maturity and face value.

There are two classes of securities in the BCV's securities portfolio that are available for these transactions:

- *Permanent Portfolio*: it comprises four issuances of DPNS. Two of these were given to the BCV as payment for the credits the central government had with the BCV. The other two were acquired by the BCV in the secondary market with the purpose of holding them until maturity.
- *Temporary Portfolio*: it comprises the securities that are delivered to the BCV as a result of reverse repo transactions the latter holds with financial institutions. These securities will remain in the temporary portfolio as long as the time to maturity of the securities themselves is longer than the maturity of the intended repo.

In case these securities turn to be insufficient to cope with the demand of the financial institutions, the BCV issues CDs with the same maturity and interest rate as those in the original notice.

8.4 FOREIGN EXCHANGE POLICY

The United States dollar (USD) is by far the most important currency traded in the Venezuelan forex market.

The BCV plays a key role in the forex market. As monetary authority, the BCV is responsible for the orderly development of the market, for which it has developed centralized systems for trading and settlement. On the other hand, the BCV intervenes in the forex market to moderate the volatility of the exchange rate and to ensure that the exchange rate level and path are consistent with all other economic variables.

Moreover, the BCV is the main supplier of foreign currencies as PDVSA, the country's major exporter, is compelled to sell its foreign currency revenues to the BCV. To inject foreign currencies into the economy the BCV uses an auction mechanism. The authorized foreign exchange operators⁴¹ communicate to the BCV their desired prices and amounts and the foreign currencies are allotted to the most competitive quotations until depletion of the amount being offered.

At present, the BCV holds three regular sell auctions, each of them for the same amount. At the same time, the BCV holds a buy auction, which serves as an intervention mechanism since the BCV reserves the right to buy or not the currencies being offered. Additionally, the BCV makes arbitrage transactions through its Forex Desk.

At market closing, foreign exchange operators must inform the BCV on the amount and the exchange rate of their purchase and sales. The BCV uses this information to calculate the reference exchange rate,⁴² which it communicates through its website between 3:30 and 4:00 p.m.

⁴¹ Universal banks, commercial banks, foreign exchange houses, savings and loans entities and border foreign exchange operators.

⁴² The reference exchange rate Bs./USD is calculated on the basis of a weighted average of all the transactions made by the banks during the day, including the transactions with the BCV.

8.4.1 Settlement of Foreign Exchange Transactions

Foreign exchange transactions between the BCV and the foreign exchange operators are settled two working days after the trade date. For the foreign currency leg, the operators provide the BCV with the name and address of their correspondent bank, together the SWIFT, ABA, FW or CHIPS code or number and the account to which the transfer should be made. The domestic currency leg is settled through the current accounts system of the BCV.

8.5 THE ROLE OF THE CENTRAL BANK IN CROSS-BORDER PAYMENTS

The BCV is a member country of the Latin American Association for Integration (*Asociación Latinoamericana de Integración*, ALADI), a system for the clearing and settlement of multilateral cross-border payments related to the intra-regional trade of 12 countries: Argentina, Brazil, Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. In 1965, the central banks of these countries subscribed the "Reciprocal Payments and Credits Agreement" (*Convenio de Pagos y Créditos Recíprocos*) with the basic objective of reducing the cross-border transfer of foreign currencies among themselves. Through this agreement, members offer system participants the guarantees of convertibility, transferability and reimbursement.

Under the ALADI system, these central banks accept payment documents associated with the intra-regional trade, mainly those related to credit letters denominated in USD. The central bank of the country where the export was originated deposits funds, on behalf of the central bank of the importing country, in the commercial bank participating in the foreign trade transaction. Each country's central bank also authorizes its financial institutions to send commercial transactions directly through ALADI as authorized institutions.

These transactions result in net accrued positions in USD among central banks. Every four months the Operations Center, located in the central bank of Peru, makes a cut-off of multilateral balances among central banks through the Automated System Supporting the ALADI Reciprocal Payments and Credit Agreement (*Sistema Computarizado de Apoyo al Convenio de Pagos y Créditos Recíprocos ALADI*, SICAP/ALADI). Funds are settled in the Federal Reserve Bank of New York, the correspondent bank of all ALADI member central banks.

The SICAP/ALADI allows the automation of the information regarding ALADI transactions as well as others related to the reciprocal relationships among member central banks. It also provides members with information on debits, credits, balances, number and interest calculations, extraordinary settlements, multilateral use of risk margins and authorized institutions tables, both for the current period and historical information.

During the Sixties, nearly a third of all intra-regional foreign trade payments was cleared and settled through ALADI. In these years only some of the member countries were export-oriented and the ALADI agreement contributed to a more efficient use of international reserves. At the end of the seventies this figure increased to nearly 75 percent of total payments and it reached its maximum during the eighties with approximately 90 percent. However, during the Nineties the portion of international foreign trade payments channeled through the ALADI decreased significantly, reaching only 16.6 percent in 1997. This situation is due in part to the availability of new and more convenient

financing methods and to the increase in the stock of international reserves in many of the region's central banks.

8.5.1 Risk Management Mechanisms

There are bilateral net debit limits (used credit lines) among counterparties. If a party exceeds this limit, the debtor central bank must make prepayments to reduce the amount and maintain itself within the limit. In recent years, due to the favorable growth of international reserves several central banks have been making prepayments even in those cases in which the maximum debt limits were not exceeded.⁴³

On the other hand, in order to minimize the risks being undertaken by central banks by guaranteeing operations, in 1997 the ALADI members created the Future Commitments System (*Sistema de Compromisos a Futuro, SICOF*), through which the operators must indicate in advance the operations they will enter into the system.

Regarding the financial institutions that channel payment transactions as authorized institutions, although these institutions are responsible for the transactions they channel under the terms of the ALADI agreement, in practice their corresponding Central Bank would become liable in case of a default. To minimize this potential risk, the BCV implemented a methodology, based on selected financial indicators, to set limits to the commitments of the authorized institutions in the ALADI. These limits are revised periodically and may be changed accordingly.

8.6 PRICING POLICIES

Article 49 of the BCV Law empowers the Central Bank to set fees and charges for the services it provides regarding payment clearance and settlement.

At present, the BCV makes a charge for the custody and transfer services it provides through the SICET:

- Securities transfers: there is a Bs.1,000 fee to be paid by the seller.
- Custody: there is a 0.01 percent fee over the amount of the principal of the interest to be paid. The charge is made automatically by the SICET at maturity of the securities or at the moment a coupon is due.

Moreover, for the cross-border funds transfers it makes for public sector institutions, the BCV charges the cost of the SWIFT message. At present, this cost is Euro 0.375. If a foreign correspondent charges the BCV for any transaction the latter makes on behalf of others, such costs are transferred to the originator.

⁴³ By doing this the central banks also reduce their financial costs, as an interest rate is applied over any debit balances

9 SUPERVISION OF SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS

9.1 SECURITIES REGULATOR SUPERVISORY AND STATUTORY RESPONSIBILITIES

The powers and duties of the CNV are established in Article 9 of the SML. Its major responsibilities are the following:

- Authorize the advertising and the prospectus of securities being publicly offered. Authorize the public offering of securities in the national territory, as well as the public offering outside the national territory of securities issued by Venezuelan residents.
- Register the securities in the RNV once the authorization for their public offering has been granted.
- Authorize the creation of stock exchanges, the trading of standardized products, including financial, commodities, real estate and other assets, as well as the creation of their respective clearinghouses and regulate their functioning. Also, supervise stock exchanges to protect the people's interest.
- Approve the internal regulations issued by stock exchanges and derivatives clearinghouses and any modifications thereof. Also, order new modifications when deemed necessary.
- Authorize and supervise the activities of the securities public brokers, either they are members of a stock exchange or not. Also, keep a registry of these brokers and revoke or suspend the authorization in case they incur in serious violations to the rules regulating their activity.
- Issue the rules authorizing the functioning of risk rating agencies.
- Issue, through general rules, the operational conditions to be met by transfer agents.
- Issue the rules according to which non-residents may provide investment advisory services of perform intermediation activities with publicly offered securities in Venezuela.
- Pay visits to the controlled companies to review their books and other documents.
- Suspend or cancel the authorization for the public offering of securities and/or the registration in the RNV of any individual or firm regulated by the SML.
- Set the requirements that the internal and external audits to the individuals or firms under its control must comply with.
- Designate one of its officials to attend, with no voting rights, shareholder and other securities holders meetings of firms that have publicly offered their securities, whenever it is considered convenient.

On the other hand, Article 2 of the CSDs Law empowers the CNV to authorize the creation, functioning and the control of CSDs, as well to supervise their activities.

9.1.1 Obligations of Information

Firms whose securities are object of public offering must provide to shareholders or other securities holders with the firm's balance sheet, income statement, cash flow statement and the statement of changes in equity as of the closing date of the financial year. They must also provide the commissioners' report 15 days in advance to the date been set for assemblies as well as any other documents the CNV may require.⁴⁴

These firms must also make immediate disclosure of any event or fact that could alter the price of any of the issued securities. Such information will be considered as insider information until its general disclosure to market participants.⁴⁵

The CNV can suspend the quotation or cancel the registration of the securities if the issuing company fails to provide the periodical or occasional information required by the SML within the established terms.

On the other hand, all stock exchange members must provide the CNV with their balance sheet, income statement and cash flow statement twice a year. Independent public accountants must audit financial statements. Moreover, the CNV may require additional information, which stock exchange members are obliged to provide.

9.1.2 Sanctioning Capacity

The CNV is empowered by the SML to apply administrative and penal sanctions.

Any administrative sanctions must follow the procedure indicated in the Administrative Procedures Organic Law (*Ley Orgánica de Procedimientos Administrativos*). When deciding over applying a sanction, the CNV must consider the aggravating or attenuating circumstances like the severity of the offence, the recidivism and the degree to which the offender is actually responsible. The fines for violations to the SML or any of the CNV rules go fro 100 to 1,000 Tax Units (*Unidades Tributarias*, UTs) and are independent of any other civil or criminal indictments.

On the other hand, some of the offences that can be sanctioned with imprisonment are the following:

- From 2 to 6 years for providing false information, carrying out fictitious transactions or executing a public offering of securities without CNV authorization.

⁴⁴ Article 113 of the SML.

⁴⁵ Article 119 of the SML.

- From 1 to 5 years for those public brokers of securities, or those acting on their behalf, benefit from the securities or funds provided by their clients having used such funds or securities for purposes other than the ones stated by the clients. In case like these a criminal investigation will be followed regardless of whether the affected parties have actually filed an accusation.
- From 1 to 4 years to brokers who register simulated transactions or who make transactions without transferring the securities.
- From 3 months to 2 years who as part of their regular activities have access to insider information and uses it for their own benefit or for the benefit of a third party.
- Any individual that creates obstacles or resists the inspection actions of the CNV, as long as the latter has provided a written notification, will be arrested for 45 days.

9.2 SELF-REGULATORY ORGANIZATIONS SUPERVISORY AND STATUTORY RESPONSIBILITIES

9.2.1 Stock Exchanges

Article 96 of the SML considers stock exchanges as self-regulatory organizations. According to this Article, the rights and duties of the Board of Directors of a stock exchange must be stated in its internal regulation, which will come into force once approved by the CNV. Article 101 of this Law also indicates that the Board of Directors of any stock exchange is empowered to supervise the activities of its members and to issue the internal regulation of the exchange, which, among others, must include the conditions and terms that all transactions made by exchange members must comply with.

Stock exchanges must modify their internal regulation to adapt them to the rules or the resolutions the CNV may issue regarding their particular activities or for securities brokerage activities in general.

According to the Internal Regulation of the Caracas Stock Exchange (BVC), stock exchange members have the following obligations and responsibilities:

- Comply with the Internal Regulation, the resolutions of the Assembly and the Board of Directors of the BVC, as well as complying with stock exchange best practices.
- Provide the Board of Directors and the Executive Vicepresident any information they may require.
- Attend the trading sessions and carry out transactions in a fully honest, transparent and accurate way.
- Ensure that fees to be applied strictly follow the rates established by the Board of Directors.

- Carry an updated customer registry, preserve confidentiality over their identity and deliver in a timely fashion the receipts of the transactions that have been made.

With the CNV approval, the Board of Directors can apply sanctions to stock exchange members, including fines, suspension or expulsion.

9.2.2 Central Securities Depositories

The CSDs Law does not consider central Securities Depositories self-regulatory organizations.

APPENDIX: STATISTICAL TABLES

The first series (A) are payment and securities clearance and settlement statistics in Venezuela. The second series (B) are more general statistics of the financial system.

Starting 2002, the Working Group on Payment System Issues of Latin America and the Caribbean (WGPI-LAC), has been working on a document on Comparative Statistical Tables on Payments and Securities Clearance and Settlement Systems for the Region's countries. For the latter, the statistical tables of individual countries are being updated periodically and may be reviewed at the WHI's web site: www.ipho-whpi.org.

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Table A1: Basic Statistical Data*

	1998	1999	2000	2001	2002
Population (in millions)	23.2	23.7	24.2	24.6	25.1
GDP (in 1993 Bs. Million)	602,558	565,888	584,195	600,488	547,175
Exchange Rate: Bs./USD (year-end)	564.50	648.25	699.75	763.00	1,401.25

Sources: BCV and National Statistics Institute.

Table A2: Settlement Media Used by Non-banks
(in Bs. million, year-end)

	1998	1999	2000	2001	2002
Banknotes and Coins	1,219,766	1,792,206	1,963,478	2,277,062	3,780,122
Transferable Deposits in Local Currency	3,718,415	4,303,956	6,052,226	6,795,169	7,076,987
<i>Households</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Business Sector</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Others</i>	n.a.	n.a.	n.a.	n.a.	n.a.
Narrow Money Supply (M1)	4,938,181	6,096,162	8,015,704	9,072,231	10,857,109
Transferable Deposits in Foreign Currency	n.a.	n.a.	n.a.	n.a.	n.a.
Quasi Money	5,683,464	6,644,674	8,268,874	7,904,133	8,716,260
Broad Monetary Aggregates					
<i>M2</i>	10,621,645	12,740,836	16,284,578	16,976,364	19,596,704
<i>M3</i>	10,650,419	12,801,174	16,344,470	17,034,160	19,569,704

Source: BCV.

* The following conventions for notation are used throughout the Statistical Appendix: "n.a." indicates data that are not available; "... " stands for data that are not applicable; "neg" (negligible) indicates where data are very small relative to other relevant data in the table concerned.

Table A3: Settlement Media Used by Credit/Deposit Taking Institutions
(in Bs. million, year-end)

	1998	1999	2000	2001	2002
Required Reserves held at the Central Bank	1,606,675	2,064,159	2,654,716	3,042,174	2,662,098
<i>In local currency</i>	1,581,961	2,046,471	2,619,357	2,996,655	2,601,545
<i>In foreign currency</i> ^(a)	25,714	17,688	35,359	45,519	60,553
of which, usable for settlement ^(b)	2,009,328	2,405,653	2,976,500	3,138,705	2,984,298
<i>In local currency</i>	2,009,328	2,405,653	2,976,500	3,138,705	2,984,298
<i>In foreign currency</i> ^(c)	...	...	...	...	...
Excess Reserves held at the Central Bank	427,370	359,204	358,475	142,005	382,802
<i>In local currency</i>	427,367	359,181	357,143	142,050	382,753
<i>In foreign currency</i>	3	23	1,332	-45	59
Central Bank Loans to Financial Institutions	n.a.	19,000	3,000	503,492	350,599
Transferable Deposits at Other Entities	n.a.	n.a.	n.a.	n.a.	n.a.

Source: BCV.

^(a) Balances in foreign currencies were converted into Bs. with each year's average exchange rate.

^(b) This refers to the balances in the Single Account.

^(c) Reserve requirements in foreign currency can only be mobilized if the BCV actually reduces the requirement.

Table A4: Institutional Framework
(year-end 2002)

	Number of Entities	Number of Branches ^(a)	Number of Accounts	Value of the Accounts (in Bs. million)
Central Bank	1	2	1,172	n.a.
Universal Banks	16	2,268	11,208,319	10,011,641
Commercial Banks	21	466	1,287,328	2,074,135
Mortgage Banks	2	2	756	9,974
Investment Banks	6	7	3,674	28,868
Financial Leasing Companies	2	2	3	5
Savings and Loans Entities	4	120	353,230	191,797

Source: SUDEBAN.

^(a) Includes agencies.

Table A5: Bank Notes and Coins
(in Bs. million, year-end)

	1998	1999	2000	2001	2002
Banknotes and Coins Issued	1,672,803	2,444,383	2,692,314	3,111,244	4,808,680
Banknotes	1,666,977	2,417,053	2,655,383	3,064,903	4,749,694
<i>denominations:</i>					
50,000	...	...	...	...	233,314
20,000	...	145,414	611,350	1,192,748	1,455,657
10,000	89,293	757,188	711,411	447,294	1,408,779
5,000	828,387	1,028,880	970,874	1,038,921	1,238,960
2,000	238,561	236,815	140,508	170,851	185,886
1,000	280,430	135,980	110,430	124,064	172,225
500	190,371	74,206	72,060	57,055	28,988
100	19,824	19,784	23,136	20,215	13,421
50	8,943	8,824	6,634	5,216	4,249
20	5,478	4,664	4,078	3,790	3,572
10	3,776	3,459	3,272	3,131	3,033
5	1,755	1,678	1,630	1,618	1,610
2	65	65	...	...	...
1	96	96	...	...	...
Coins	5,826	6,199	27,329	36,945	57,584
Banknotes and coins held at banks	n.a.	n.a.	n.a.	n.a.	n.a.
Bank notes and coins held outside banks	n.a.	n.a.	n.a.	n.a.	n.a.

Source: BCV.

Table A6: Cash Dispensers, ATMs and EFTPOS Terminals
(year-end)

	1998	1999	2000	2001	2002
Cash Dispensers and ATMs					
Number of networks	2	2	2	3	5
Number of terminals ^(a)	2,818	3,544	5,331	4,242	4,302
Volume of transactions (in million) ^(a)	42.1	44.9	68	132.4	158.0
Value of transactions (in Bs. million) ^(a)	517,366	611,283	1,065,950	2,214,930	3,404,625
EFTPOS	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Suiche 7B and Conexus.

^(a) Only includes information on the networks Suiche 7B and Conexus.

Table A7: Number of Payment Cards in Circulation
(year-end)

	1998	1999	2000	2001	2002
Cards with a cash function	n.a.	n.a.	n.a.	n.a.	n.a.
Cards with a debit/credit function	2,582,336	2,570,350	2,464,657	2,491,799	2,521,136
of which:					
<i>Debit Cards</i>	1,100	1,418	1,723	1,179	1,045
<i>Credit Cards</i>	2,581,236	2,568,932	2,462,934	2,490,620	2,520,091
Cards with a cheque-guarantee function	...	...	...	...	...
Retail and fidelity cards	...	...	...	...	...
Stored-value cards	...	...	...	...	...

Sources: *Suiche 7B* and *SUDEBAN*.

Table A8: Indicators of Use of Various Cashless Payment Instruments
(volume of transactions)

	1998	1999	2000	2001	2002
Cheques issued (in thousands)	137,730	112,360	107,561	107,049	79,103
<i>In local currency (in thousands)</i>	137,730	112,360	107,561	107,049	79,103
<i>In foreign currency</i>	n.a.	n.a.	n.a.	n.a.	n.a.
Payments with cards	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Debit</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Credit</i>	n.a.	n.a.	n.a.	n.a.	n.a.
Paper-based credit transfers	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Initiated by clients</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Interbank / large value^(a)</i>	104,689	46,717	25,658	24,075	20,172
Paperless credit transfers	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Initiated by clients</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Interbank / large value^(b)</i>	...	55,098	92,064	101,983	164,912
Direct Debits	...	...	...	...	...
E-money	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: *BCV*, *Suiche 7B* y *SUDEBAN*.

^(a) Includes transfers made through the "Carta Orden" and Telex systems of the *BCV*.

^(b) Includes transfers made through the SWIFT DCC298 and SET systems of the *BCV*.

Table A9: Indicators of Use of Various Cashless Payment Instruments
(value of transactions, in Bs. billion)

	1998	1999	2000	2001	2002
Cheques issued	108,425	98,001	112,627	135,217	110,703
<i>In local currency</i>	108,425	98,001	112,627	135,217	110,703
<i>In foreign currency</i>	...	...	...	...	...
Payments with cards	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Debit</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Credit</i>	766,238	888,536	1,003,253	1,176,286	1,268,044
Paper-based credit transfers	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Initiated by clients</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Interbank / large value^(a)</i>	65,119	29,587	22,581	31,276	25,442
Paperless credit transfers	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Initiated by clients</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Interbank / large value^(b)</i>	...	36,452	65,790	74,424	107,431
Direct Debits	...	...	...	...	...
E-money	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: BCV, Suiche 7B y SUDEBAN.

^(a) Includes transfers made through the "Carta Orden" and Telex systems of the BCV.

^(b) Includes transfers made through the SWIFT DCC298 and SET systems of the BCV.

Table A10: Payment Instructions Handled by Selected Interbank Transfer Systems
(volume of transactions)

	1998	1999	2000	2001	2002
Cheque Clearinghouse (in thousands)	137,730	112,360	107,561	107,049	79,103
Manual Systems (Carta Orden and Telex)	104,689	46,717	25,658	24,075	20,172
Automated Systems (SWIFT DCC298 and SET) ^(a)	...	55,098	92,064	101,983	164,912

Source: BCV.

^(a) The SET was launched on February 2002.

Table A11: Payment Instructions Handled by Selected Interbank Transfer Systems
(value of transactions, in Bs. billion)

	1998	1999	2000	2001	2002
Cheque Clearinghouse (in thousands)	108,425	98,001	112,627	135,217	110,703
Manual Systems (Carta Orden and Telex)	61,119	29,587	22,581	31,276	25,442
Automated Systems (SWIFT DCC298 and SET) ^(a)	...	36,452	65,790	74,424	107,431

Source: BCV.

^(a) The SET was launched on February 2002.

Table A12: Securities and Accounts Registered at the Central Securities Depositories

System	Type of Custody	Value (in Bs. Million)	Number of Accounts
Caja Venezolana de Valores	Electronic	n.a.	84 accounts 77,654 sub-accounts
	Electronic <i>Dematerialized</i>	9,646,097.3 6,513,834.0	n.a.
SICET	<i>Immobilized global note</i>	3,132,263.3	
	Physical	14,348.8	n.a.

Sources: BCV and CVW.

Table A13: Transfer Instructions Handled by the SICET
(volume of transactions)

Instrument	1998	1999	2000	2001	2002
Secondary Market Transactions ^(a)	...	1,981	3,525	25,693	21,987
<i>National Public Debt (DPNs)</i>	...	1,816	2,349	20,077	16,615
<i>Treasury Bills</i>	...	165	1,176	4,080	4,020
<i>Tax Returns Certificates</i>	1,536	1,352
Principal and Interest Payments	874	9,126	9,043
<i>National Public Debt (DPNs)</i>	874	8,685	7,899
<i>Treasury Bills</i>	441	1,144

Source: BCV.

^(a) Includes free-of-payment securities transfers.

Table A14: Transfer Instructions Handled by the SICET
(value of transactions, in Bs. billion)

<i>Instrument</i>	1998	1999	2000	2001	2002
Secondary Market Transactions ^(a)	...	2,350	13,429	32,466	30,145
<i>National Public Debt (DPNs)</i>	...	1,992	12,073	26,478	24,895
<i>Treasury Bills</i>	...	358	1,356	5,232	4,630
<i>Tax Returns Certificates</i>	756	620
Principal and Interest Payments	1,067	4,387	9,147
<i>National Public Debt (DPNs)</i>	1,067	2,737	5,121
<i>Treasury Bills</i>	1,650	4,026

Source: BCV.

^(a) Includes free-of-payment securities transfers.

Table A15: Participation in SWIFT by Domestic Institutions

	1998	1999	2000	2001	Sep-2002
Domestic SWIFT users	32	47	47	43	43
<i>Of which</i>					
Members	19	16	16	14	12
Sub-members	7	8	8	5	5
Participants	6	23	23	24	26
SWIFT users worldwide	6,557	6,797	7,125	7,199	7,431
<i>Of which</i>					
Members	2,980	2,214	2,288	2,241	2,209
Sub-members	2,720	2,763	2,978	3,027	3,067
Participants	857	1,820	1,859	1,931	2,155

Source: SWIFT.

Table A16: SWIFT Message Flows To / From Domestic Users

	1998	1999	2000	2001	Sep-2002
Total messages sent	774,619	904,354	1,260,189	1,584,993	1,304,910
<i>Of which:</i>					
<i>Category I</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Category II</i>	n.a.	n.a.	n.a.	n.a.	n.a.
Total messages received	764,088	947,514	1,262,847	1,594,796	1,529,830
<i>Of which:</i>					
<i>Category I</i>	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Category II</i>	n.a.	n.a.	n.a.	n.a.	n.a.
Total Domestic Traffic	134,145	230,050	427,399	591,844	543,855
<i>Memo: Global SWIFT Traffic</i>	937,039,995	1,076,490,597	1,298,668,103	1,533,906,047	1,342,159,454

Source: SWIFT.

Table B1: Number of Financial Entities

	1998	1999	2000	2001	2002
Financial System Total	85	79	73	64	52
Central Bank	1	1	1	1	1
Universal Banks	14	15	14	18	16
Commercial Banks ^(a)	26	26	25	23	21
Mortgage Banks	5	4	4	3	2
Investment Banks	13	11	12	10	6
Financial Leasing Firms	9	5	5	4	2
Savings and Loans	17	17	12	5	4

Source: SUDEBAN.

^(a) Includes those banks under a special regime.

Table B2: Number of Branches

	1998	1999	2000	2001	Nov-2002
Financial System Total	2,773	3,025	3,023	2,958	2,867
Central Bank	2	2	2	2	2
Universal Banks	1,387	1,758	1,836	2,287	2,268
Commercial Banks ^(a)	980	808	743	539	466
Mortgage Banks	10	8	6	3	2
Investment Banks	13	13	13	19	7
Financial Leasing Firms	9	5	5	4	2
Savings and Loans	372	431	418	104	120

Source: SUDEBAN.

^(a) Includes those banks under a special regime.

Table B3: Number of Employees

	1998	1999	2000	2001	Sep-2002
Financial System Total	77,092	66,340	62,161	58,572	56,653
Universal Banks	42,125	41,764	38,158	44,816	44,157
Commercial Banks	27,866	17,447	17,812	12,205	10,949
Mortgage Banks	176	148	58	n.a.	10
Investment Banks	500	427	362	269	120
Financial Leasing Firms	112	106	81	51	34
Savings and Loans	6,313	6,448	5,690	1,231	1,383

Source: SUDEBAN.

Table B4: Assets
(in Bs. million)

	1998	1999	2000	2001	2002
Financial System Total	14,066,847	16,392,044	21,656,733	22,358,121	24,969,625
Universal and Commercial Banks	12,368,022	14,139,633	18,795,040	21,607,609	24,277,864
Mortgage Banks	84,152	73,469	90,925	54,115	22,388
Investment Banks	353,252	471,072	499,037	268,171	179,127
Financial Leasing Firms	80,829	55,398	50,566	41,667	13,578
Savings and Loans	1,180,592	1,652,472	2,221,165	386,559	476,668

Source: SUDEBAN.

Table B5: Deposits
(in Bs. million)

	1998	1999	2000	2001	2002
Financial System Total	10,338,596	12,150,675	16,543,749	16,463,387	17,187,297
Universal and Commercial Banks	9,277,006	10,687,496	14,582,231	16,110,227	16,805,489
Mortgage Banks	33,638	29,922	34,891	9,974	695
Investment Banks	45,392	56,527	65,015	28,868	12,432
Financial Leasing Firms	14,446	41	29	5	600
Savings and Loans	968,114	1,376,689	1,861,583	314,313	368,081

Source: SUDEBAN.

Table B6: Loans
(in Bs. million)

	1998	1999	2000	2001	2002
Financial System Total	6,948,416	7,453,255	9,276,368	9,783,950	9,358,829
Universal and Commercial Banks	5,861,918	6,219,929	7,880,143	9,415,248	9,152,776
Mortgage Banks	55,864	46,985	56,335	30,601	12,181
Investment Banks	159,279	157,738	144,568	115,845	11,492
Financial Leasing Firms	58,953	37,487	34,368	24,183	7,695
Savings and Loans	812,402	991,116	1,160,954	198,073	174,685

Source: SUDEBAN.

Table B7: Capital
(in Bs. million)

	1998	1999	2000	2001	2002
Financial System Total	1,912,958	2,143,781	2,715,288	3,194,328	4,002,143
Universal and Commercial Banks	1,673,832	1,877,467	2,364,811	3,020,436	3,853,527
Mortgage Banks	13,453	11,656	17,404	16,971	12,774
Investment Banks	76,758	78,813	78,400	86,707	63,384
Financial Leasing Firms	19,637	14,123	15,826	18,859	7,040
Savings and Loans	129,278	161,722	238,847	51,355	65,418

Source: SUDEBAN.

LIST OF ABBREVIATIONS

ABV	<i>Asociación Bancaria de Venezuela</i> (Venezuela's Banking Association)
ACH	Automated Clearing House
ADR	American Depository Receipt
ALADI	<i>Asociación Latinoamericana de Integración</i> (Latin American Association for Integration)
ASICRED	<i>Sistema de Asistencia Crediticia</i> (Credit Assistance System)
ATM	Automated Teller Machine
BCV	<i>Banco Central de Venezuela</i> (Central Bank of Venezuela)
BIS	Bank for International Settlements
BOLPRIAVEN	<i>Bolsa de Productos e Insumos Agropecuarios de Venezuela</i> (Agricultural Products and Raw Materials Exchange of Venezuela)
BVC	<i>Bolsa de Valores de Caracas</i> (Caracas Stock Exchange)
CAMELS	Capital, Assets, Management, Earnings, Liquidity, Sensibility to Market Risks
CBN	<i>Consejo Bancario Nacional</i> (National Banking Council)
CCE	<i>Cámara de Compensación Electrónica de Cheques y otros Medios de Pago</i> (Electronic Clearinghouse for Cheques and Other Payment Means)
CD	Certificate of Deposit
CFI	<i>Clasificación de Instrumentos Financieros</i> (Financial Instruments Classification)
CNV	<i>Comisión Nacional de Valores</i> (National Securities Commission)
CPI	Consumer Price Index
CPSIPS	Core Principles for Systemically Important Payment Systems
CPSS	Committee on Payment and Settlement Systems
CSD	Central Securities Depository
CVV	<i>Caja Venezolana de Valores</i> (Venezuelan Central Securities Depository)
DNS	Deferred Net Settlement
DPN	<i>Bono de la Deuda Pública Nacional</i> (National Public Debt Bond)
DVP	Delivery versus Payment
EFTPOS	Electronic Funds Transfer at the Point of Sale
FDI	Foreign Direct Investment
FIFO	First in, first out
FOGADE	<i>Fondo de Garantía de Depósitos y Protección Bancaria</i> (Deposit Insurance and Banking Protection Fund)
GDP	Gross Domestic Product

GDR	Global Depositary Receipt
IAS	International Accounting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
ISIN	International Securities Industry Numbering
LGBOIF	<i>Ley General de Bancos y Otras Instituciones Financieras</i> (Banks and Other Financial Institutions General Law)
NACHA	National Automated Clearing House Association
OMO	Open Market Operation
OPSP	<i>Oficina de Proyecto de Sistema de Pagos</i> (Payment System Project Office)
OTC	Over-the-Counter
PDVSA	<i>Petróleos de Venezuela S.A.</i> (Venezuela's Petroleum Company)
POS	Point of Sale
PVP	Payment versus Payment
RNV	<i>Registro Nacional de Valores</i> (National Securities Registry)
RTGS	Real Time Gross Settlement
SATD	<i>Sistema de Administración de Títulos Desmaterializados</i> (Dematerialized Securities Administration System)
SET	<i>Sistema Electrónico de Transferencias de Fondos para Préstamos Interbancarios</i> (Funds Transfer Electronic System for Interbank Loans)
SIBE	<i>Sistema Integrado Bursátil Electrónico</i> (Integrated Electronic Stock Exchange System)
SICAP	<i>Sistema Computarizado de Apoyo al Convenio de Pagos y Créditos Recíprocos de ALADI</i> (Automated System Supporting the ALADI Reciprocal Payments and Credits Agreement)
SICET	<i>Sistema Integrado de Custodia Electrónica de Títulos</i> (Integrated System for the Electronic Custody of Securities)
SICOF	<i>Sistema de Compromisos a Futuro</i> (Future Commitments System)
SIGALC	<i>Sistema Integrado de Garantías y Líneas de Crédito</i> (Integrated System for Credit Lines and Collateral)
SIMA	<i>Sistema Integrado de Mercado Abierto</i> (Integrated Open Market System)
SIV	<i>Sistema Integrado de Valores</i> (Securities Integrated System)
SML	Securities Market Law
SPI	Sistema de Pagos Interbancarios (Interbank Payment System)
STI	<i>Sistema de Transferencias Interbancarias</i> (Interbank Transfer System)
STP	Straight Through Processing

SUDEBAN	<i>Superintendencia de Bancos y Otras Instituciones Financieras</i> (Superintendence of Banks and Other Financial Institutions)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
USA	United States of America
UT	<i>Unidades Tributarias</i> (Taxing Units)

GLOSSARY

In January 2001, the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) published a combined glossary for payments and securities clearance and settlement terms. The Glossary can be found on the BIS web site: www.bis.org. The Western Hemisphere Payments and Securities Clearance and Settlement Initiative (WHI), on the basis of the glossary produced by the CPSS, also produced a uniform glossary of terms in Spanish in order to avoid unnecessary proliferation of terminology and definitions. The latter can be found at the WHI's web site: www.ipho-whpi.org.

Below are some terms not mentioned in that Glossary and/or that are peculiar to the Venezuelan context:

<i>Clearance and Settlement:</i>	in Venezuela the term "clearance" is often used to refer to the discharge of obligations, which in the international terminology would correspond to the settlement concept. This Report was written following the international interpretation of these terms.
<i>Correspondent Accounts:</i>	current accounts that banks hold in another commercial bank that acts as the settlement agent for some payments system.
<i>Cut-off times:</i>	the specific times of the day or intervals throughout the operating hours in which a payment system processes a clearance and settlement cycle.
<i>Jewels ("Joyas"):</i>	investment trusts of internationally quoted securities, created by the Caracas Stock Exchange for Venezuelan investors. Depending on the securities underlying in the investment trust, there are three kinds of "jewels": "Pearls", "Rubies" and "Emeralds".
<i>Market-making:</i>	a function that is performed by some financial intermediaries by which they stand ready to buy and sell certain securities at any time, thereby increasing the liquidity of the secondary market for those securities.
<i>Originator:</i>	customer of an originating institution who uses payment services and produces instructions to be executed by the receiving institution.
<i>Paper Payment Orders:</i>	("Carta Orden") paper documents containing standardized payment instructions that the institutions holding a single account at the BCV send to the latter. At present, only public sector institutions and a few financial institutions use this mechanism.
<i>Payments System:</i>	the set of payment systems in a country.

<i>Receiver:</i>	is the final person or firm who receives a debit or credit in his account, according to the instructions sent by the originating institution.
<i>Securitization:</i>	a process by which an otherwise illiquid financial asset is transformed into negotiable securities.
<i>Transfer Agents:</i>	securities market agents that are responsible for the administration of the shareholder records of issuers.
<i>Tax Units:</i>	(<i>"Unidades Tributarias"</i>) unit of account with a constant value in real terms.

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