



# **COLOMBIA: REVIEW OF THE FINANCIAL SYSTEM**

**April 2016**

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**REVIEW OF COLOMBIA  
BY THE COMMITTEE ON FINANCIAL MARKETS**

This review of Colombia by the OECD Committee on Financial Markets is part of a series of reviews of the financial system. The Committee was requested to examine Colombia's position with respect to core principles related to financial systems.

The present report was finalised on the basis of information available in April 2016. It is released on the responsibility of the Secretary General of the OECD.

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## List of abbreviations

AMV	<i>Autorregulador del Mercado de Valores</i>
BR	<i>Banco de la República</i> , Colombian central bank
BVC	<i>Bolsa de Valores de Colombia</i>
CCDC	Foreign Currency Clearing House ( <i>Cámara de Compensación de Divisas de Colombia</i> )
EEF	Economic and Financial Education
EOSF	Financial System Statute ( <i>Estatuto Orgánico del Sistema Financiero</i> )
FDN	<i>Financiera de Desarrollo Nacional</i>
FICE	Foreign capital investment fund
FOGAFIN	Deposit Guarantee Fund
FSCC	Financial System Coordination Committee
MILA	<i>Mercado Integrado Latinoamericano</i>
MoF	Ministry of Finance and Public Credit
SFC	Superintendence of Finance
SRO	Self-regulatory organisation
TES	Domestic public debt
URF	Financial Regulation and Financial Studies Unit ( <i>Unidad de Proyección Normativa y Estudios de Regulación Financiera</i> )
WKSI	Well-known seasoned issuers

## I. Overview

### A. Macroeconomic context

1. Favourable macroeconomic conditions have led to an increase in investors' confidence in Colombia with the domestic investment rate for 2013 reaching 27.6% of GDP, and FDI inflows amounting to USD16 billion. The current account deficit reached 3.3% of GDP in 2013. International reserves stood at USD43.6 billion at the end of 2013. For 2014, the Central Bank forecasts the economy to grow 5%, and expects growth at similar rates in coming years.

**Table 1. Key macroeconomic indicators**

Key macroeconomic indicators	2010	2011	2012	2013	2014 py
GDP real growth (1)	3.97%	6.65%	4.00%	4.30%	4.74%
Average annual inflation (1)	2.27%	3.42%	3.17%	2.72%	2.8%*

py stands for projected. Source: DANE - Producción y Demanda Agregada Cuadro 2.1.1<sup>1</sup>

\*: OECD Economics Directorate forecast based on 3Q 2014 figure of 2.66%.

**Figure 1. Colombia's selected economic and financial indicators**

	II. Economic Indicators						
	2007	2008	2009	2010	Pre1 2011	Projections 2012	2013
(Percentage changes, unless otherwise indicated)							
<b>National income and prices</b>							
Real GDP	6.9	3.5	1.7	4.0	5.9	4.3	4.4
GDP deflator	5.0	7.6	3.4	3.6	6.9	2.5	3.0
Consumer prices (average)	5.6	7.0	4.2	2.3	3.4	3.2	2.8
Consumer prices (end of period)	5.7	7.7	2.0	3.2	3.7	2.7	3.0
<b>External sector (on the basis of US\$)</b>							
Exports (f.o.b.)	21.4	26.0	-11.7	20.1	41.2	3.8	5.1
Imports (f.o.b.)	25.4	20.5	-16.2	22.7	35.2	7.7	4.2
Terms of trade (deterioration -)	4.2	10.6	-9.8	9.8	13.2	-2.8	-2.7
Real effective exchange rate (depreciation -)	7.7	0.4	5.2	5.5	4.0	..	..
<b>Central government</b>							
Revenue	14.8	16.0	2.8	-2.8	25.7	14.9	9.5
Expenditure	9.9	12.9	13.6	-1.9	16.4	8.8	10.5
<b>Money and credit</b>							
Broad money	17.4	18.5	8.1	11.5	18.9	11.1	11.5
Credit to the private sector	25.6	14.0	0.9	16.8	22.9	12.9	13.5
Interest rate (90-day time deposits; percent per year)							
Nominal	9.0	10.1	4.1	3.5	5.1	..	..
Real	3.3	2.4	2.1	0.3	1.4	..	..
(\$n percent of GDP)							
Central government balance	-2.7	-2.3	-4.1	-3.9	-2.8	-2.0	-2.2
Combined public sector balance 1/	-0.7	-0.1	-2.7	-3.3	-1.9	-0.8	-1.1
Public debt 2/	32.7	30.9	36.7	36.9	34.2	32.2	30.9
Public debt, excluding Ecopetrol	32.7	30.9	35.6	35.7	33.1	30.9	29.7
Gross domestic investment	23.0	23.5	22.4	22.0	23.5	23.1	22.5
Gross national savings	20.2	20.6	20.3	19.0	20.4	20.2	19.6
Current account (CA) (deficit -)	-2.8	-2.9	-2.1	-3.1	-3.0	-2.9	-2.9
External debt	21.2	19.7	23.2	22.7	23.2	22.6	22.2
Of which: public sector	13.7	12.5	16.0	13.9	13.1	13.3	13.3
GDR in percent of short-term (ST) debt	198.7	207.3	242.5	194.7	157.8	163.7	166.9
(\$n percent of exports of goods and services)							
External debt service	39.2	32.0	37.9	30.2	29.1	37.8	39.0
Of which: Public sector	15.6	12.7	11.7	11.0	9.0	10.6	8.7
Of which: Interest payments	9.2	7.7	8.1	7.5	6.0	6.7	6.7
Of which: Public sector	6.4	5.5	5.7	5.4	4.1	3.9	4.0
(\$n millions of U.S. dollars)							
Changes in GDR	5,498	3,065	1,321	3,086	3,834	4,402	3,101
Exports (f.o.b.)	30,577	38,534	34,025	40,867	57,721	59,922	62,987
Of which: Petroleum products	7,318	12,204	10,254	16,483	27,854	31,446	34,750
Of which: Coffee	1,714	1,883	1,543	1,884	2,608	1,556	1,576
Gross official reserves	20,607	23,672	24,992	28,078	31,912	36,313	39,414
Share of ST debt at remaining maturity + CA deficit	120	145	131	115	103	109	116
In months of imports of goods and services	5.5	7.4	6.4	5.5	5.8	6.3	6.7

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and Fund staff estimates and projections.

1/ Includes the quasi-fiscal balance of Banco de la República, Fogafin balance, net cost of financial system restructuring, and statistical discrepancy.

2/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Source: IMF, Colombia: Country Report No. 14/172 (June 2013).

<sup>1</sup> Information from web site Colombian National Planning Department (DNP)

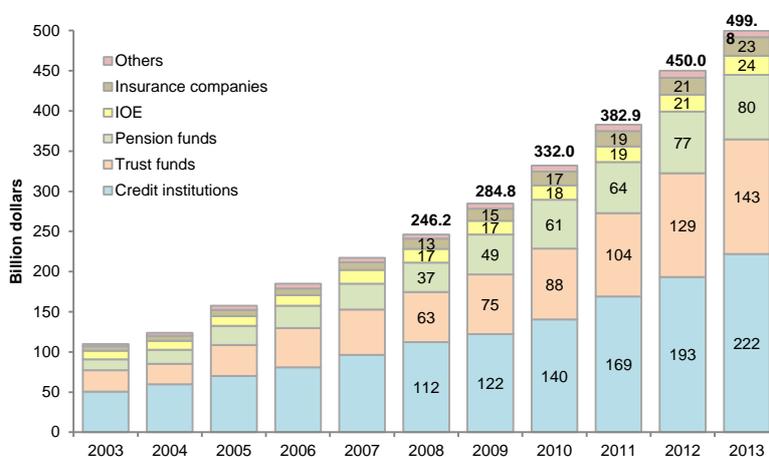
[https://www.dnp.gov.co/Portals/0/archivos/documentos/DNE/Indicadores\\_Coyuntura\\_Economica/C1\\_Produccion\\_y\\_demanda\\_agregada.xls](https://www.dnp.gov.co/Portals/0/archivos/documentos/DNE/Indicadores_Coyuntura_Economica/C1_Produccion_y_demanda_agregada.xls)

2. Structural fiscal reforms have been carried out in recent years, resulting in the central government deficit decreasing from 3.9% of GDP in 2010 to 2.4% of GDP in 2013. In term of government bonds, Colombia had its largest external bond issuance for 30-year maturity bonds in January 2014 for a total of USD2 billion at a rate of 5.625%.

### B. Recent trends in financial markets

3. The financial sector structure has undergone some changes in recent years, the most relevant being the expansion of Colombian banks into Central America since the mid-2000s, with rising complexity and traceability of their transactions. Between 2006 and 2013, the number of operations abroad of Colombian banks increased from 29 to 170, mainly in Panama, Costa Rica and Guatemala.

**Figure 2. Financial sector total assets**



Source: SFC. Financial statements subject to revision by the SFC.  
TRM 1.926,83 COP/USD as of December 31st, 2013.

**Table 2. Relative shares of financial sector assets held or controlled by regulated institutions (million USD)  
(e.g., banks, insurance companies, pension funds, collective investment schemes)**

	Total sum as first level shareholders	Share %
Banks	37,011.2	3.39%
Mutual funds	23.2	0.00%
Trust funds	382.8	0.04%
Pension funds	694.7	0.06%
Insurance Industry	19,528.5	1.79%
Investment fund managers	397.3	0.04%
Financial corporations	1,083.0	0.10%
Specialized State-Owned Institutions (IOE)	14,741.7	1.35%
Total outstanding shares of the financial sector	1,091,299.2	6.77%

Source: SFC

4. The ratio of banking sector assets to GDP has been steadily increasing in Colombia.

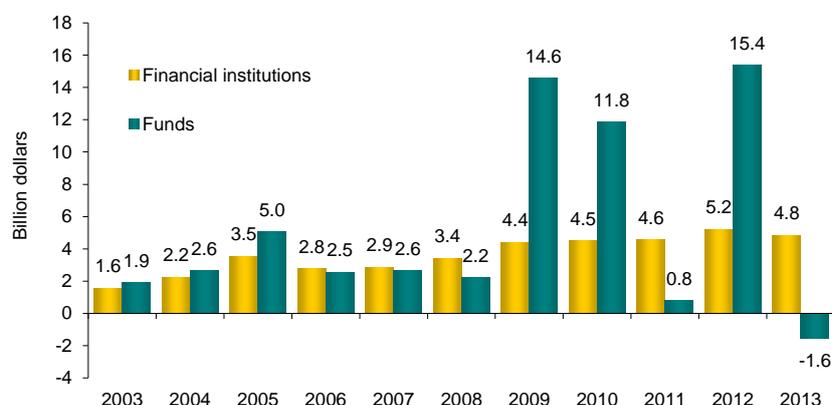
**Table 3. Colombia's banking sector assets to GDP**

2009	40%
2010	45%
2011	48%
2012	51%
2013	55%

Source: DANE - Dirección de Síntesis y Cuentas Nacionales y Banco de la República, Estudios

5. Managed funds<sup>2</sup> had lower profits owing to the characteristics of their business, which depends on the performance of financial markets. At the end of 2013, the financial sector had profits of USD3.2 billion, mainly driven by the profits of supervised institutions (USD4.8 billion), while for the managed funds the results were minus USD1.6 billion.

**Figure 3. Financial sector profits**



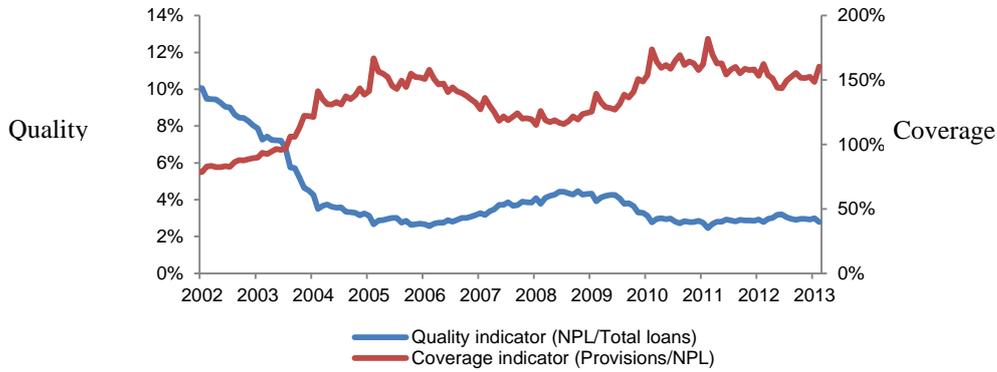
Source: SFC. Financial statements subject to revision by the SFC.  
TRM 1.926,83 COP/USD as of December 31st, 2013

6. The continuing growth of the aggregate loan portfolio increased financial depth, as the ratio of credit to GDP increased 2.6 percentage points, going from 37.8% in December 2012 to 40.5% in December 2013. The growth of the aggregate loan portfolio is driven by the housing and commercial portfolio components.

7. The loan quality indicator (non-performing loans/total loans) has remained stable since 2010, and is currently at 2.8%. The coverage indicator (provisions/non-performing loans) showed that, in December 2013, banks maintained an adequate level of provisions to support losses from non-performing loans at 160.4%.

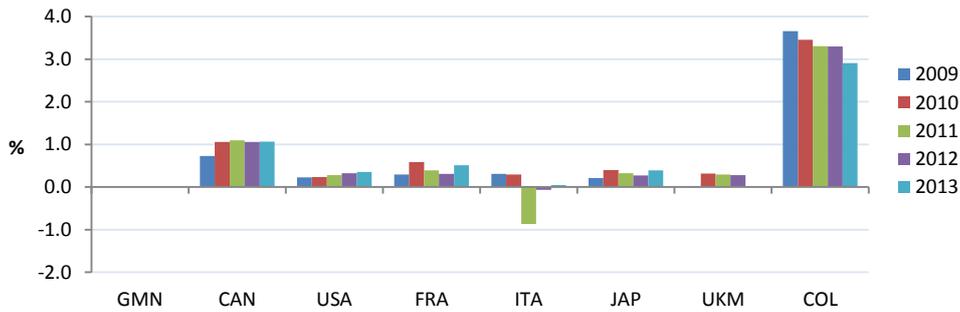
<sup>2</sup> Funds managed by supervised entities that are authorised to handle them, such as trust companies and pension fund managers, are called managed funds.

**Figure 4. Quality and coverage of loan portfolio**



8. The profitability of financial institutions, as measured by the return on assets (ROA), has remained relatively stable in recent years, given the growth in assets.

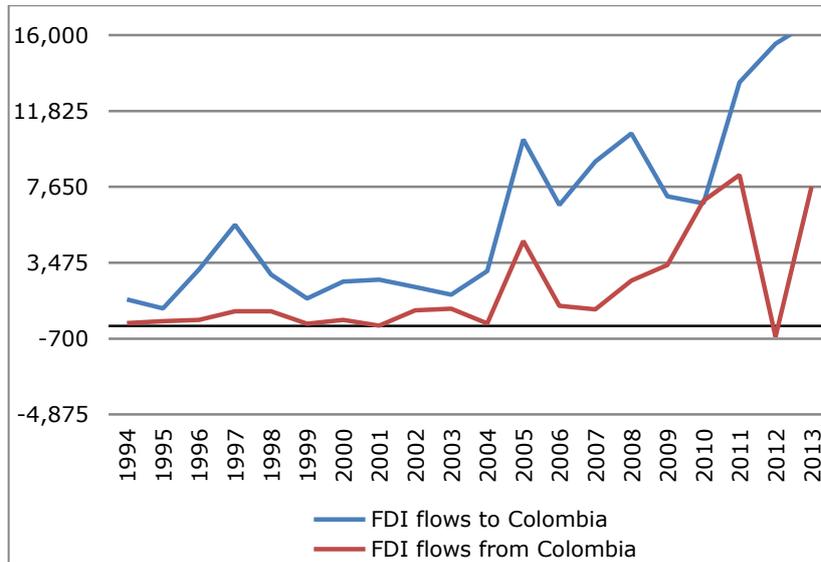
**Figure 5. Return on assets**



GMN: Germany; CAN: Canada; USA: United States; FRA: France; ITA: Italy; JAP: Japan; UKM: United Kingdom; COL: Colombia. GMN did not report this indicator during the assessment period. For 2013 the information from the United States and Canada is up to September, while for France and Italy is up to June 2013. Japan information corresponds to that recorded at the end of the third quarter for each of the years. For United Kingdom there is no information available for 2013. Colombia information corresponds to the calculated financial soundness indicators for the banking sector.

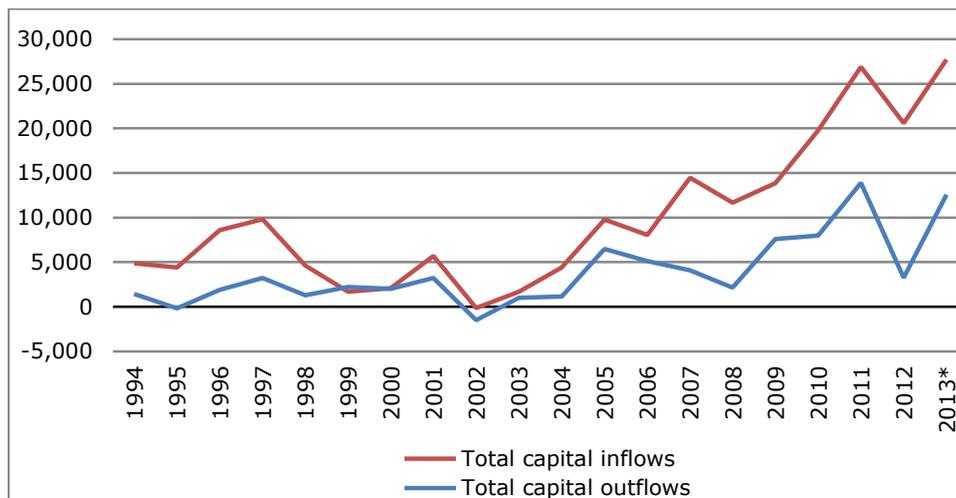
9. Investment flows have shown a significant increase, with FDI inflows reaching USD16.8 billion, a historic high. FDI outflows have also surged, but remain lower than inflows. International portfolio investment flows in Colombia reached USD4.7 billion in 2013. FDI inflows have somewhat moderated in 2014, while portfolio inflows have gained speed in part reflecting the JPMorgan increase in the weight of COL local bonds in its benchmark index.

**Figure 6. FDI flows to and from Colombia (USD Million)**



Source: Calculations from URF, based on Foreign Investment data from Banco de la República

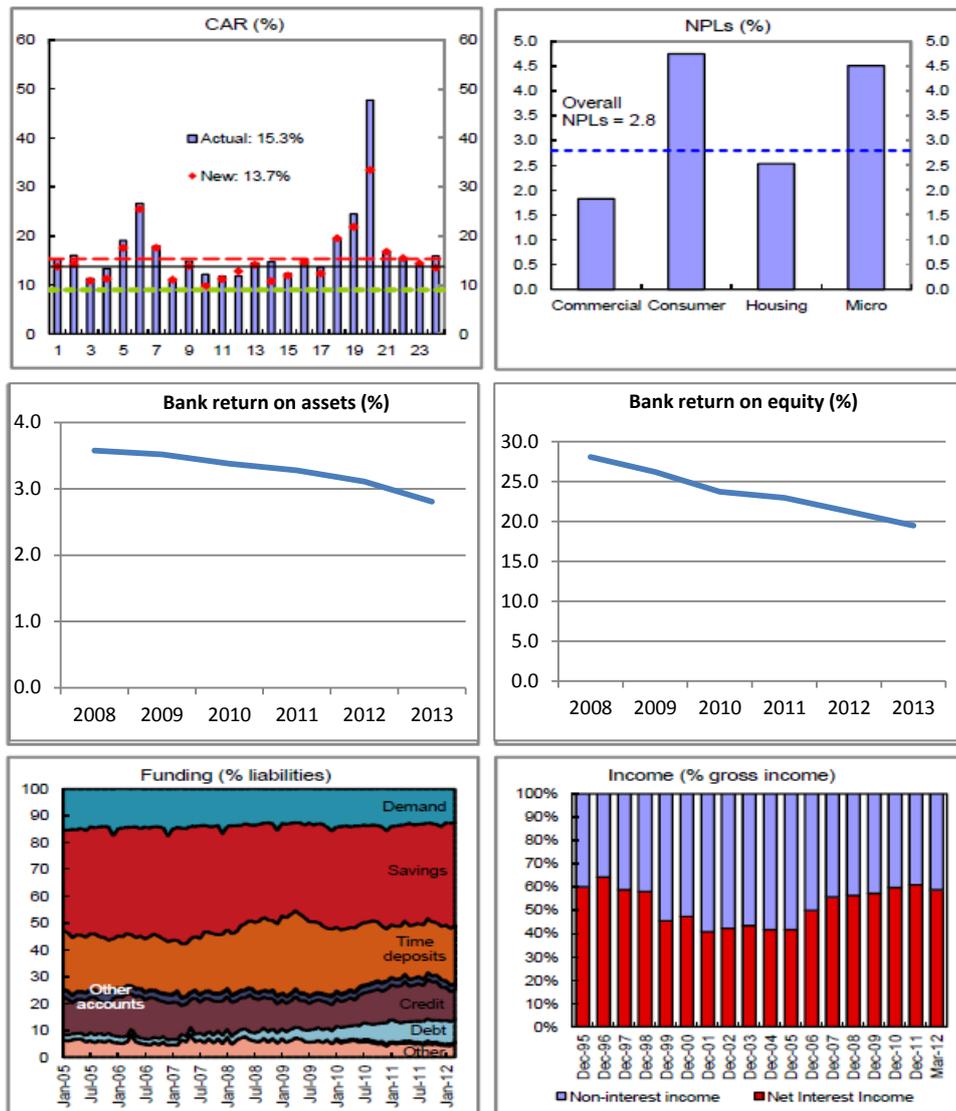
**Figure 7. Capital flows (USD Millions)**



Source: Calculations from URF, based on Balance of Payments data from Banco de la República

10. The capital adequacy ratio of the banking sector remained high and above the regulatory minimum level (9%) in 2013. In 2013, credit institutions accomplished the new capital quality requirements issued by the MoF, closing the year with a capital adequacy ratio of 15.1%. Since the change of methodology was adopted in August 2013, all credit institutions have maintained their solvency ratio above the regulatory minimum requirement of 9.0%, with basic solvency capital that has the highest capacity to absorb losses at 10.19%, exceeding the minimum level of 4.5%.

Figure 8. Colombia: financial soundness indicators



Sources: Colombian authorities & IMF staff estimates.

Source: IMF, Colombia: Financial Stability System Assessment (February 2013).

Subsequent updates made by OECD Secretariat.

## **II. Financial infrastructure**

### ***A. Central Bank and monetary policy framework***

11. Banco de la República (Central Bank, BR) is responsible for monetary policy and foreign exchange. It has the authority to adopt certain macroprudential measures, manages and exercises surveillance functions over the payment system, provides liquidity to markets, and acts as a lender-of-last-resort.

12. The current monetary policy goal is to maintain a flexible inflation targeting strategy within a range of 2% to 4% annually, with a target of 3%. Low and stable inflation must be achieved in the context of sustainable and stable long-term economic growth potential. There is no target for the foreign exchange rate, and intervention by the central bank is aimed at maintaining a level of international reserves in accordance with the international liquidity needs of the economy. The main instrument of monetary policy is the Repo interest rate, through which the central bank provides liquidity to the banking system. The repos are mainly intraday instruments, which can be provided to any deposit taking bank, broker/dealer, or trust company. Until last year, pension funds were also part of the open market operations, but the recent FSAP recommended narrowing the range of financial institutions that are part of open market operations to allow greater intermediation among financial institutions.

13. BR contributes to the safety and soundness of the financial system through four different mechanisms: (i) it offers different liquidity facilities to the financial system (repos via open market operations, intraday repos for payment system stability and lender-of-last-resort liquidity facility); (ii) it aids the smooth functioning of the payment system, (iii) it monitors financial institutions as part of the lender-of-last-resort responsibility and conducts research and quantitative analysis on different topics related to financial stability, and (iv) it supervises financial infrastructures and their participants, based on a macro-prudential approach to financial markets.

14. The law requires BR to lend only to deposit taking institutions when operating its lender-of-last-resort function against a wide range of collateral, including loans and bonds. If a situation arises in which BR needs to lend to broker-dealers, trust companies and clearing houses, such as in a crisis when traditional channels of liquidity break down, BR uses the intra-day repo facility by converting the intra-day to overnight repos and rolling them over on a continuous basis. While the intraday repos are lent at a rate of 0.01%, the overnight repo rate is the reference rate plus 100 b.p. and only government debt is accepted as collateral.

### ***B. Payment and settlement systems***

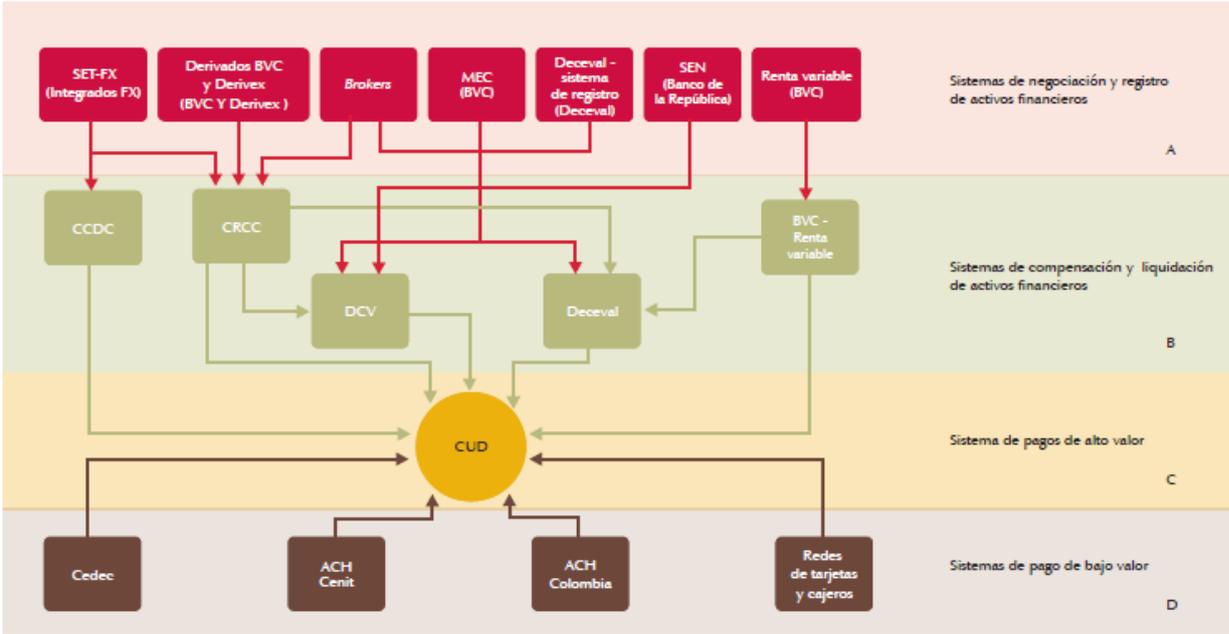
15. The final settlement of all payments in Colombia is carried out at the CUD - Deposit Accounts Systems (Sistemas de Cuentas de Depósito, in Spanish), the large value payment system which is owned by the BR and operates on a real-time gross settlement basis. Access to the CUD is broad as most regulated financial institutions are participants. The central bank also operates DCV, the public debt depository and settlement platform, and the Cedec and ACH Cenit, which are the cheque clearing house and the clearing house for government payments.

16. The private sector operates the CCDC, for spot and next day peso-dollar transactions, and Deceval, for settlement of private debt (stock and fixed-income bonds). The stock exchange operates CRCC, the central counterparty for derivatives, and BVC-Renta, for stock exchange settlements. There are also retail payment systems.

17. BR has responsibility for the financial stability of the payment system and established a separate department to carry out oversight of the payment system in 2010. Since deposit-taking institutions are

required to limit their gross loan position to 5.5 times of their capital, BR encourages OTC derivatives to be settled through the central counterparty by waiving this requirement; although the collateral requirement of the central counterparty can be more onerous. BR has not taken action to centralise all OTC transactions through the central counterparty so as not to provide a disincentive to banks from hedging their forex positions.

**Figure 9. Payment and settlement system of Colombia**

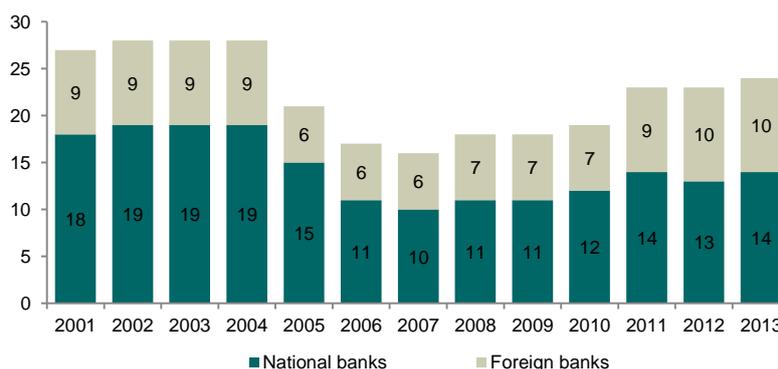


Fuente: Banco de la República (DSIF).  
 Source: Banco de Republica

### III. Banking system: structure and operation

18. The Colombian banking sector has expanded in the past decade, supported primarily by growing intermediation and general economic growth. The expansion of assets in recent years has been accompanied by higher capitalisation of banks. During this period, there have been a number of new entrants to the market, especially foreign-owned institutions.

Figure 10. Number of banks in Colombia



Source: SFC.

19. According to the 2013 financial inclusion report of the SFC and *Banca de las Oportunidades*,<sup>3</sup> the proportion of the population that is unbanked, while still high at approximately 30% of the adult population at end-2013, has been declining steadily.

20. In terms of geographical coverage, as of end-2013, out of the 1,102 existing municipalities, only three towns did not have a bank and only one completely lacked coverage from any financial institution. However, around 30% of the adult population who have a savings account do not actively use it. This is related, at least in part, to the high proportion of the informal economy in Colombia.

#### A. Financial institutions and financial groups

21. Financial institutions in Colombia may be classified in two broad categories: (i) credit institutions: commercial banks (*establecimientos bancarios*), investment banks (*corporaciones financieras*) and financing companies (*compañías de financiamiento*), and (ii) non-bank financial institutions, including trust companies (*sociedades fiduciarias*), broker-dealers, investment management companies (*sociedades administradoras de inversión*), insurance companies, and pension and severance fund managers.

22. The main vehicles, their functions, and authorised activities are described below<sup>4</sup>:

<sup>3</sup> *Banca de las Oportunidades* is a public program administered by the Foreign Trade Bank (Bancoldex). Its purpose is to promote access to financial services for poor families, unbanked households, micro-entrepreneurs and small business. It is framed within the Governments' long-term financial inclusion strategy as a mechanism for reducing poverty, promoting equality and stimulating economic development in Colombia.

<sup>4</sup> De la Cruz, Javier; Stephanou, Constantinos, 2006. "Financial System Structure in Colombia: Reform Options." The World Bank Group - Finance, private sector and infrastructure - Latin America and the Caribbean Region.

- Commercial banks (*establecimientos bancarios*): commercial banks can offer the full range of retail (including mortgage<sup>5</sup> and financial leasing<sup>6</sup>) and corporate banking services, with the exception of investment banking, and generally trust services.
- Investment banks (*corporaciones financieras*): investment banks can offer most corporate and investment banking services. They cannot fund themselves with demand deposits, but can offer savings deposits and sell other retail products. Investment banks can take equity participations in any financial institutions, including banks.
- Financing companies (*compañías de financiamiento*): finance companies offer lending and leasing services, but cannot fund themselves with demand deposits. However, they are permitted to offer savings deposits and other retail products.
- Trust companies (*sociedades fiduciarias*): entities which are a combination of asset management and trust/fiduciary activities vehicles, and some custodial activities. They are particularly active in some business areas, such as management of properties and administration of liquidated companies.
- Stock-brokers (*sociedades comisionistas de bolsa*): brokers and broker-dealers which can also offer most investment banking and some fund management services. They are permitted to manage collective investment funds (FICs), third party portfolios and carry out securities administration.
- Investment management companies (*sociedades administradoras de inversión*): entities offering asset and fund management services but not trust businesses.
- Insurance companies (life and non-life) and insurance brokers: entities providing a full range of insurance services.
- Pension fund and severance fund managers (*sociedades administradoras de fondos de pensiones y de cesantía* - AFPs): entities managing mandatory defined contribution pension and severance schemes, as well as some voluntary pension funds.

23. While no single institution can provide all financial services, they are allowed to be part of a financial conglomerate, which can include any of the above institutions (see Annex I for the main shareholders of the major banks in Colombia). Moreover, regulation permits the use of any one entity's office network by another in the group<sup>7</sup>. Thus, a bank may allow a broker-dealer or a trust company (affiliated or not) to promote and offer asset management services in its offices. However, the signage must be clear that it is not a product of the bank, and staff and location within the bank branch must be clearly segregated.

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<sup>5</sup> Law 45 of 1990 allowed commercial banks to provide mortgage services. Previously, only Savings and Loans Corporations (*corporaciones de ahorro y vivienda* – “CAVs”) were allowed in the mortgage business. CAVs were eliminated after 1999.

<sup>6</sup> Law 1328 of 2009 allowed Banks to provide financial leasing services. Previously, only financing companies could offer financial leasing.

<sup>7</sup> Article 93 of EOSF and Title 1 of Book 34 of Part 2 of Decree 2555 of 2010.

24. In general, financial institutions are only permitted to engage in activities for which they are authorised as stated in the regulatory framework. Related to this, the composition of their asset portfolio must adhere to the relevant regulations.

25. The investments of credit institutions, including investment banks, are listed in the Financial System Estatute (EOSF). Banks and financial companies are not allowed to invest in non-financial entities other than in those whose sole purpose is providing technical or administrative services or assistance which are essential for the normal course of business of a financial institution. The requirement on such ownership is to hold more than 51% of their shares, except when several financial intermediaries supervised by the SFC are the owners.

26. Credit institutions, including banks, are allowed to participate in the capital of other credit institutions that are not of the same nature; therefore, a bank can participate in the capital of a financing company or a financial corporation but cannot be a shareholder of another bank. In addition, credit institutions can hold the capital of trust companies, brokerage firms, general deposit warehouses, and pension and severance funds, as long as their holding is more than 51% of subscribed shares, either directly or with help of other companies related to the holding company.

27. Regarding pension funds, the investment regime of portfolio investments of mandatory pension funds is established by Decree 2555 of 2010 which allows investment in non-financial entities or corporations through various local and foreign instruments such as bonds, stocks, private equity funds and mutual funds. However it is possible to invest up to 10% in investments on companies related to the administrator of the pension fund.

28. In contrast, pursuant to Decree 2016 of 1992, stock brokerage firms must invest their own portfolio investments exclusively in assets that have a direct relation with their legal objet. In all cases, investments in other legal vehicles must be previously submitted for approval of the Colombian Financial Superintendence. As for investments in real estate, brokerage firms shall only invest in properties that are meant for a direct use of them in the development of daily activities.

29. Moreover, according to article 2.31.3.1.1 and following Decree 2555 of 2010, insurance companies can invest their technical reserves in non-financial institutions that follow the standards mentioned in the former regulation.

30. Furthermore, Colombian financial institutions can invest in foreign financial entities whenever they follow the regulatory framework stated in the Decree 2080 of 2000 and amended by Decree 4800 of 2010.

**Figure 11. Financial conglomerates in Colombia and the entities they control**

Market Segment	Grupo Aval	Grupo Bancolombia*	Grupo Sura*	Grupo Bolivar	Colombian Government	BBVA
<b>Banks</b>	Bogota, Occidente, Popular, AV Villas	Bancolombia		Davivienda	Agrario	BBVA
<b>Financial Corporations</b>	Corficolombiana	Banca de Inversión Bancolombia				
<b>Financing Companies</b>	Leasing Corficolombiana	Leasing Bancolombia, Tuya Compañía de Financiamiento		Leasing Bolivar	Leasing Bancoldex	BBVA Leasing
<b>Trust Companies (Fiduciarias)</b>	Bogota, Corficolombiana, Occidente, Popular	Fiduciaria Bancolombia		Fiduciaria Davivienda	Previsora, Fiducoldex, Fiduagraria, Central,	BBVA Asset Management
<b>Stock-brokers</b>	Casa de Bolsa	Valores Bancolombia		Davivalores, Corredores Asociados		BBVA Valores
<b>Insurance</b>	Seguros Alfa, Seguros de vida Alfa		Seguros de Vida Suramericana, Seguros Generales Suramericana, ARL Sura	Seguros Bolivar, Seguros Comerciales Bolivar	Previsora Seguros Generales, Positiva	BBVA Seguros Colombia, BBVA Seguros de Vida Colombia
<b>Capitalization Companies</b>				Capitalizadora Bolivar		
<b>Pensions</b>	Porvenir		Protección		Colpensiones	

\* Legally, Grupo Empresarial Antioqueño is not a conglomerate. In other words, there is no controlling relationship between Sura, Bancolombia and Proteccion. However, Sura has recognized that both Bancolombia and Proteccion are strategic investments. Moreover, while strictly speaking Suramericana does not control either of these companies, it is their major shareholder (with holdings equivalent to and 49.4%, respectively). Source: Colombian authorities.

**Table 4. Foreign financial groups (Banking, USD Millions as of December 31<sup>st</sup>, 2013)**

Conglomerate	Holding Nature	Assets in Colombia	% in Colombia	Assets Abroad	Total Assets	Activities
BBVA COLOMBIA Conglomerate	Foreign Conglomerate with Bank as Holding	18.826	6,88%	-	18.826	Banking, Securities, Trusts, Insurance
CORPBANCA Conglomerate	Foreign Conglomerate with Bank as Holding	13.296	4,86%	1.042	14.338	Banking, Securities, Trusts,
SCOTIA Conglomerate	Foreign Conglomerate with Bank as Holding	8.644	3,16%	248	8.892	Banking, Securities, Trusts, Pension Funds Managers
GNB SUDAMERIS Conglomerate	Foreign Conglomerate with Bank as Holding	8.037	2,67%	2.031	10.068	Banking, Securities, Trusts, Other Financial Activities, Real Sector
CITIBANK Conglomerate	Foreign Conglomerate with Bank as Holding	4.665	1,70%	-	4.665	Banking, Securities, Trusts,

Source: SFC

31. Foreign investors, non-residents who want to conduct banking activities in Colombia, can either incorporate a subsidiary or establish a branch. Both require prior authorisation from the Superintendence of Finance (SFC).

32. Colombia maintained restrictions on the establishment of branches of non-resident enterprises in financial services until 2013, when Law 1328, which authorised branching in banking, came into force. Securities firms and other entities providing non-bank financial services, trust companies and securities agents, securities deposit, investment managers, and financial corporations, among others, have to establish a subsidiary in Colombia to operate in the country.

**Table 5. Foreign participation in financial institutions (trillion COP)**

Subsectors Credit Institutions	Total Licenses		Foreign Capital Licenses		Foreign Capital Participation	
	Number	Administrated Assets	Number	Administrated Assets	Number	Administrated Assets
Banks	24	388.6	10	91.5	41.7%	23.6%
Financial Corporations	5	11.9	3	0.9	60.0%	8.2%
Finance Companies	22	24.5	8	1.9	36.4%	8.2%
Brokerage firms (SCBS)	26	36.8	12	8.9	46.1%	24.4%
Fiduciaries (Trust Companies)	28	272.9	10	60.0	35.7%	21.99%
<b>Total Credit Institutions</b>	<b>105</b>	<b>734.7</b>	<b>43</b>	<b>163.5</b>	<b>40.9%</b>	<b>22.2%</b>

Source: Colombian authorities

### ***B. State-owned financial institutions***

33. Currently there is one public bank – Banco Agrario – owned by the Government in Colombia with a banking market share of 4.94%. After the 1999 economic crisis, the government decided to sell all state-owned banks except Banco Agrario, which was restructured after the crisis. The main purpose of this bank is to provide financial services to the rural sector.

34. There are four government-controlled trust companies out of a total of 28. The combined market share of state-owned trust companies is 17.5% in asset value and 22.86% in fees. Trust companies have a particular status in Colombia, in that they provide a wide range of financial services. State-owned trust companies fulfil a public role in the financial market, as they conduct operations in areas in which other banks are unwilling to enter, such as property management, including rental collection and administration of liquidated companies. The profitability of the state-owned trust companies and the public bank is lower than for private entities, given that they carry out operations in less profitable areas where there is an element of market failure.

35. The deputy minister or other senior officials of the MoF sit on the boards of the state-owned trust companies. There is no public procedure for the appointment of MoF officials to the boards.

36. The OECD report on Colombia's SOEs makes the following relevant recommendations:<sup>8</sup>

- *Separation of roles.* A well-established ownership coordination body, with a clear ownership policy to guide it, would be then able to take over the responsibilities currently assigned to line ministries [...]
- *Independence of boards.* Political appointees could be replaced by independent directors, ideally with private-sector experience and complementary skills that would enhance the functioning of SOE boards [...]

<sup>8</sup> Hector Lehuéde, Colombia SOEs: A Review Against the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD Corporate Governance Working Papers No. 12, 2013).

**Table 6. State-owned trust companies: by asset value**

INSTITUTION		INVESTMENT	REAL ESTATE	ADMINISTRATION	GUARANTEE	FPV	SOCIAL SECURITY & OTHER RESOURCES	INVESTMENT FUNDS	TOTAL	
CODE	NAME	VALUE	VALUE	VALUE	VALUE	VALUE	VALUE	VALUE	QTY	VALUE
12	FIDUCIARIA LA PREVISORA S. A.	1	51,047	4,195,955	69,014	-	29,363,751	1,120,344	219	34,800,111
38	FIDUCIARIA CENTRAL S.A. - FIDUCENTRAL S.A.	23,053	690,883	269,336	127,297	-	-	245,954	756	1,356,522
39	SOCIEDAD FIDUCIARIA DE DESARROLLO AGROPECUARIO S.A. - FIDUAGRARIA S.A.	-	10,656	4,730,568	147,512	-	-	436,621	435	5,325,357
40	FIDUCIARIA COLOMBIANA DE COMERCIO EXTERIOR S.A. - FIDUCOLDEX S.A.	-	61,625	2,014,851	2,317	-	3,882,045	188,638	482	6,149,476
<b>PUBLIC FIDUCIARIES SUBTOTAL</b>		<b>23,054</b>	<b>814,210</b>	<b>11,210,710</b>	<b>346,139</b>	<b>-</b>	<b>33,245,796</b>	<b>1,991,557</b>	<b>1,892</b>	<b>47,631,466</b>
<b>TOTAL</b>		<b>35,490,556</b>	<b>23,431,324</b>	<b>77,375,066</b>	<b>25,109,019</b>	<b>1,553,285</b>	<b>73,257,249</b>	<b>36,647,207</b>	<b>21,171</b>	<b>272,863,705</b>
<b>PARTICIPATION OF PUBLIC INSTITUTIONS OVER TOTAL</b>		<b>0.1%</b>	<b>3.5%</b>	<b>14.5%</b>	<b>1.4%</b>	<b>0.0%</b>	<b>45.4%</b>	<b>5.4%</b>	<b>8.9%</b>	<b>17.5%</b>

Source: Colombian authorities

**Table 7. State-owned trust companies: by fees income**

CODE	FIDUCIARIES	INVESTMENT FUNDS	INVESTMENT	REAL ESTATE	ADMINISTRATION	GUARANTEE	SOCIAL SECURITY & OTHER RESOURCES	CONSORTIUMS	TOTAL
12	Fiduciaria La Previsora S. A.	19,157	12	4	74,605	64	22,675	70,469	186,986
38	Fiduciaria Central S.A.	2,530	153	2,038	2,577	87	0	5,436	12,822
39	Soc. Fid. Desarrollo Agropecuario S.A.	4,627	0	0	5,539	210	0	2,359	12,735
40	Fid. Col. de Comercio Exterior S.A.	1,392	0	240	10,549	116	530	22,471	35,298
<b>SUBTOTAL FIDUCIARIAS PÚBLICAS</b>		<b>27,706</b>	<b>165</b>	<b>2,282</b>	<b>93,270</b>	<b>478</b>	<b>23,205</b>	<b>100,736</b>	<b>247,841</b>
<b>TOTAL</b>		<b>468,504</b>	<b>84,418</b>	<b>71,616</b>	<b>224,657</b>	<b>33,589</b>	<b>66,286</b>	<b>135,248</b>	<b>1,084,317</b>
<b>PUBLIC FIDUCIARIES PARTICIPATION (%)</b>		<b>5.91%</b>	<b>0.20%</b>	<b>3.19%</b>	<b>41.52%</b>	<b>1.42%</b>	<b>35.01%</b>	<b>74.48%</b>	<b>22.86%</b>

Source: Colombian authorities

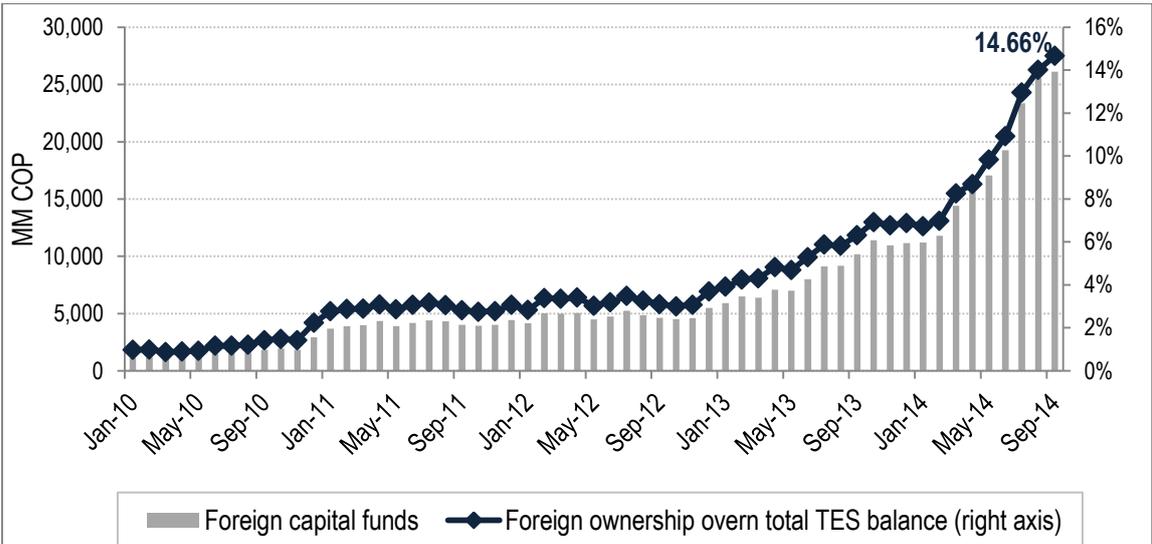
37. There are a few development financial institutions which are government owned or controlled, and the Government created a new development financial institution, the *Financiera de Desarrollo Nacional* (FDN) in 2013 to provide financing in the field of infrastructure. There are three second-tier state-owned development financial institutions: Bancoldex, Finagro and Findeter. Their purpose is providing finance for productive activities, the agriculture and livestock sector and for territorial entities.

**IV. Capital markets: structure and operation**

**A. Recent developments in capital markets**

38. There has been a significant shift in the capital market since March 19, 2014 with the announcement made by JP Morgan to adjust the composition of its GBI-EM indices, increasing the weight of Colombian local instruments. This adjustment favours Colombia, as reflected in a significant increase in demand for domestic debt bonds from international investors. Foreign investors’ ownership of Local TES bonds (Colombian Treasury bond) was 14.6% of total internal debt stock at end of September 2014.

**Figure 12. Foreign investors’ ownership of Local TES Bonds**



Source: Ministry of Finance of Colombia (Ministerio de Hacienda y Crédito Público)

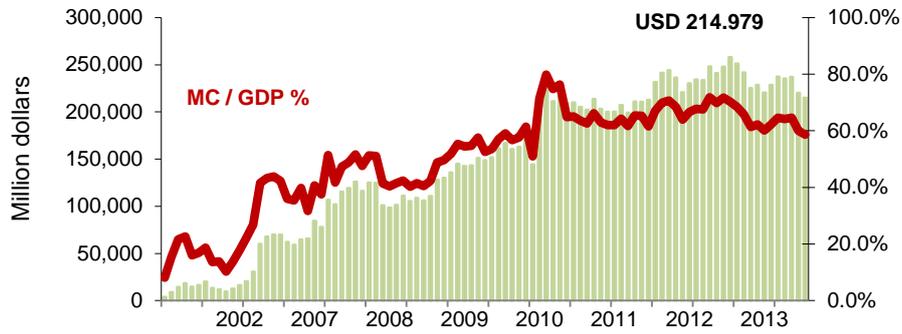
39. These changes also reflect the increased transparency and accessibility of international players to the TES market. The taxation scheme was simplified and the tax rate for these investments was lowered from 33% to 14% in 2013.

**Table 8. Domestic market capitalisation of stock exchange(s) (billion USD, as of 31 December 2013)**

	GDP	Market capitalization (MC)	MC/ GDP
2009	261.9	150.9	57.63%
2010	282.8	215.9	76.35%
2011	322.6	210.7	65.31%
2012	345.5	247.8	71.71%
2013	366.8	215.0	58.60%

Source: Colombian authorities

**Figure 13. Market capitalisation**



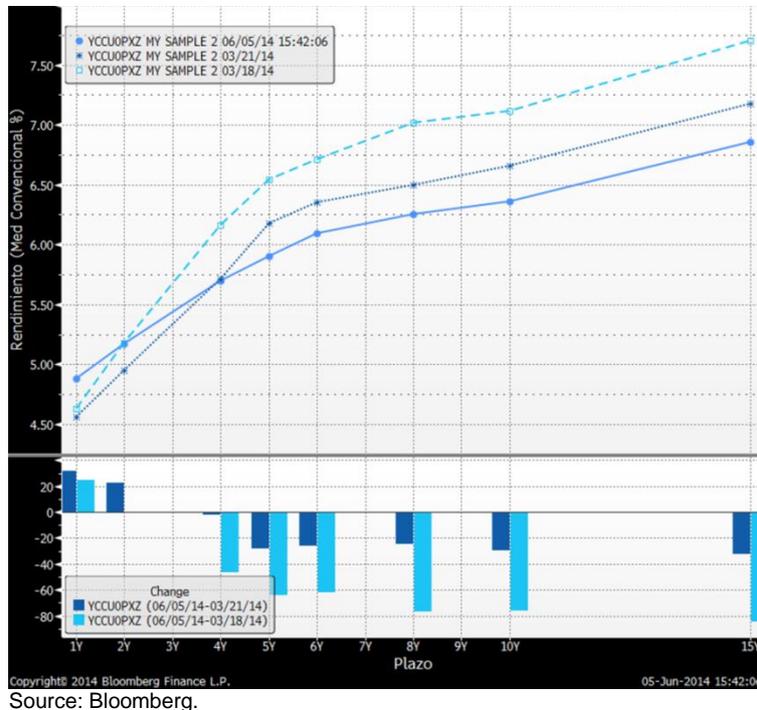
Source: Colombian Securities Exchange (BVC)

**Table 9. Total value of shares traded- Colombian Securities Exchange (BVC) (billion USD)**

Year	Stock market
2009	21.2
2010	27.8
2011	35.2
2012	37.0
2013	24.7

Source: BVC.

**Figure 14. Yield Curve – COP TES bond**



Source: Bloomberg.

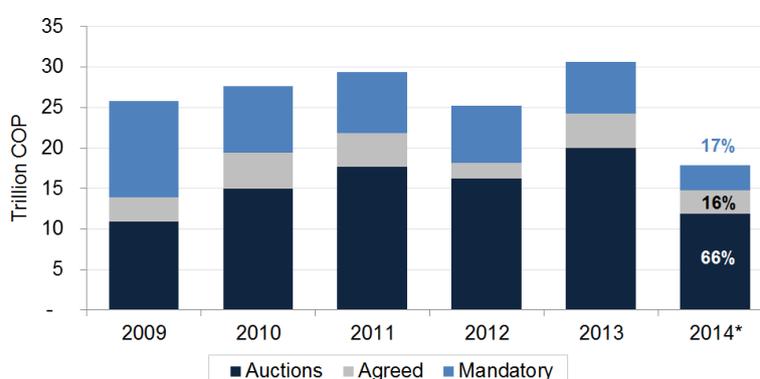
40. Nonetheless, local institutional investors remain the largest investors in TES bonds. Local pension funds continue to dominate holdings of local market debt, standing at 29% as of end of May 2014. Local commercial banks also play a major role with current holdings over 18% of total local debt

outstanding. Other major holders include public entities which collectively account for over 28% of the total outstanding. Foreign investors' ownership accounts for 9.8% of total outstanding.

*Placement mechanism*

41. There are two placement mechanisms for Government debt: market auctions and direct placements. Direct placements are divided into “Agreed placements” directed to State-Owned Enterprises (e.g. Ecopetrol) that have the option to invest directly in TES bonds; and “Mandatory placements” aimed at institutions that are required by law to invest in Government debt. The volumes issued through direct placement have diminished over the recent years, representing around 34% of total issuance as of May of 2014.

**Figure 15. Issuance of TES by Placement Mechanism (% of total)**



Source: Ministry of Finance of Colombia (Ministerio de Hacienda y Crédito Público)

*Debt structure instruments and issuance policy*

42. The current Government debt structure is the result of proactive policies that support a balanced portfolio in terms of rollover risk and cost. Most of the outstanding debt is denominated in local currency, of which 70% is in fixed coupon, and 30% linked to inflation (the UVR index).

43. Maturities go up to 15 years for fixed-rate TES and 20 years for TES UVR. The average maturity of outstanding TES is around 6.2 years as of end-May 2014, within MHCP's target and the objective is to have a maximum of 15% of debt maturing every year. Liability management operations have been conducted on a regular basis to smooth maturity profile of debt.

44. The current TES issuance strategy aims to develop local debt markets by strengthening the TES yield curve with longer maturities. It also seeks to minimize rollover risk on short-term debt maturities.

**Table 10. Issuance and outstanding amounts of private sector bonds by domestic and foreign entities**

Public offering of private sector bonds authorized by the SFC (million USD)					
	2009	2010	2011	2012	2013
Ordinary and subordinated bonds *	9,531	5,405	5,709	3,597	3,062

\* 2012 and 2013 includes combined issuance programs of ordinary bonds and commercial papers by USD 500 million and USD 1,5 billion, respectively. It also includes convertible bonds.

TRM 1.926,83 COP/USD as of December 31st, 2013.

Source: SFC.

Outstanding amounts of private sector bonds (million USD)					
	2009	2010	2011	2012	2013
Private sector bonds *	N.A.	18,410	17,566	19,489	19,738

Source: DECEVAL \* Valued at the end of the year.

TRM 1.926,83 COP/USD as of December 31st, 2013.

N.A. Not available.

**Table 11. Investment flows: Issuance of public offering of shares authorized by the SFC (amounts issues in million USD)**

	2009	2010	2011	2012	2013
Shares	425	269	6,817	1,342	1,538

\* Statistics by date of issue

Source: Information System of Public Offerings (SICOP).

**Table 12. Number of listed companies (domestic and foreign-owned)**

Number of listed companies (1) - Colombian Securities Exchange(2)	
dec-09	87
dec-10	86
dec-11	85
dec-12	82
dec-13	80

Source: SFC

(1) Data corresponds to the number of shares' issuer companies.

(2) The classification between foreign-owned and domestic is not available.

45. The development of Colombian capital markets over the past two decades has been robust with market capitalisation increasing six fold between 1992 and 2011, from 9.83% to 63.16%, as a percentage of GDP. The debt securities market, while doubling during the same period, remains a small market at only 0.57% of GDP.

46. The number of listed companies remains limited in Colombia, even among Latin American countries. The concentration of ownership in Colombia is quite high, *i.e.*, a majority of Colombian companies are controlled either by a single person or a group of persons and family businesses. Also, the additional costs of capital market financing, such as corporate governance and transparency, have discouraged some from using the capital market. Colombian investors tend to suffer from what is known as the "AAA Bias", whereby investors are reluctant to buy securities with less than an AAA rating, hindering access to smaller and riskier businesses.

#### *Collective investment schemes*

47. The SFC is the authority that analyses the authorisation of all FICs (collective investment fund) management institutions and the approval of each collective portfolio or fund, both under the supervision of the SFC.

48. Under Colombian law and regulations, FICs are “mechanisms or vehicles purported to take and manage money or other assets, which are comprised by the contributions made by a plural number of persons that will be determinable once it begins to operate, and such resources will be collectively managed in order to obtain collective economic results.”<sup>9</sup>

49. Under the new regulation, fund managers may delegate certain functions to external managers, although the responsibility remains with the fund manager. Among others, fund managers may delegate the responsibilities regarding investment decisions and the identification, measurement, control and management of risks inherent to FICs. These activities may be delegated to: (i) Colombian trust companies, investment administration companies or brokerage firms (external managers - *gestores externos*, in Spanish), or (ii) foreign legal persons that are allowed under its local regulation to manage foreign portfolios (managers from abroad - *gestores extranjeros*, in Spanish). Despite of the delegation of its responsibilities, fund managers that delegate their responsibilities to *gestores extranjeros* shall remain responsible to the SFC for the duly administration of the managed FIC.

50. The promotion of FICs to potential investors can be carried out by Colombian trust companies, investment administration companies, brokerage firms or banks for fund managers. For the purpose of classifying investment schemes of FICs and their admissible investments’ regime, Decree 1242 of 2013 provides the following classification:

- **Open-ended FICs:** FICs in which investors may redeem their investments at any time. It is possible to establish a minimum investment period;
- **Close-ended FICs:** FICs in which investors may only redeem their investments once their term has expired; or
- **Family of FICs:** Group of FICs which share a same investment purpose but that differ in characteristics such as the types of participations, redemption term, fund’s term, minimum and maximum amount of investments, risk profile, etc. Pursuant to relevant regulation, conditional on the purpose of investment of the FICs joined under a family of FICs, there are four types of family of FICs that can be incorporated:
  1. Family of FICs which invest in bonds and/or securities listed in the Colombian RNVE (National Securities and Issuers Registry (*Registro Nacional de Valores y Emisores*) or in a foreign securities registry, provided no leverage operations are executed in any case;
  2. Family of FICs which invest in stock funds that replicate or follow market indexes duly recognized by the SFC, provided no leverage operations are executed in any case ; or
  3. Family of FICs which invest in real estate assets that comply with certain characteristics detailed in Decree 1242 of 2013, the External Circular 026 of 2014 and in further regulation to be issued by the SFC.
  4. Family of FICs that allows individual funds to invest in securities on RNVE, foreign securities and funds, provided that they do not correspond to operations that have a leveraged nature, and that establish clear policies regarding diversification of investments.

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<sup>9</sup> Article 3.1.1.2.1 of D. 2555.

### *Settlement and custodian*

51. In Colombia, the operation of any kind of infrastructure provider in the securities market is subject to the approval of the SFC and its management is limited to institutions under SFC supervision.

52. The hybrid trading and registration systems (GFI, Tradition and ICAP) provide services for trading (OTC and transactional) in fixed income and FX instruments to market intermediaries, most of them credit institutions and brokerage firms. The regulatory standards for trading and registration systems are focused on system capacity. There are no capital requirements defined in the laws for these types of supervised institutions.

53. As a matter of principle, the exchanges, trading and registration systems are prohibited from acting as counterparties of operations that are performed or registered in or through their systems. Therefore, they do not operate as credit or risk guarantors of principals in trading. In some activities, the exchanges, trading and registration systems have a partial role in the activity of clearing and settlement of securities transactions. The rules and regulations for each activity have to be implemented and are subject to the SFC's supervision.

54. As securities settlement systems, DCV and DECEVAL transfer securities ownership through book-entries. Securities holdings at the DCV or DECEVAL are generally recorded at the level of the final beneficiary,<sup>10</sup> and according to the legal framework the records of these platforms are legal proof of ownership of the underlying securities. Moreover, the legal framework clarifies that the funds or securities held by entities that are supervised by the SFC or the BR, which includes the DCV and DECEVAL, that belong to third parties or that were acquired on behalf of third parties are not considered part of the general guarantees of the creditors of such institutions.

55. The BR does not accept credit or liquidity risks as the operator of the DCV and DCEVAL. To eliminate principal risk between the participants, both platforms use a real-time payment mechanism through an interface with the CUD.

56. Likewise, both platforms also record securities pledged as collateral to any DCV or DECEVAL participant, such as other FMIs, and provides special settlement services (*i.e.* batch processing of securities transfer orders) to the CRCC.

57. Furthermore, a set of operational tools and functionalities have been developed in DCV and DECEVAL's application to support participants in managing their liquidity risks. These include a central queuing system, setting priorities to securities transfer orders and the possibility to change those priorities while the order is still waiting in the queue, a liquidity optimisation algorithm to settle blocks of securities transfer orders through simulated netting, collateral substitutions, securities lending facility, and automatic repo rollover. Moreover, the use of a real-time DVP model 1 settlement mechanism facilitates participants being able to use immediately the securities/funds that have been settled.

### ***B. Initiatives to develop the capital market***

58. In 2001, the three local stock exchanges merged into a single exchange, *Bolsa de Valores de Colombia* (BVC).

59. In 2011, the Colombian, Chilean and Peruvian stock markets integrated establishing the *Mercado Integrado Lationamericano* (MILA). Through the unification of their platforms, the objective was to increase the range of options and liquidity they offer to issuers and investors. MILA's initial aim was to

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<sup>10</sup> For omnibus accounts, ownership and transactions are not recorded on a final beneficiary basis.

promote their combined markets as an attractive alternative to Brazil and Mexico, the region's two larger markets. MILA works, for example, by allowing a Colombian investor to purchase shares in a Chilean listed company by using a broker in Bogota. MILA's combined market capitalisation value exceeds that of Mexico's. However, trading volume has remained well below the trading volumes of the Mexican and Brazilian markets. In January 2015, Mexico joined MILA, which would increase MILA's overall size and trading volumes, but would still leave it well short of Brazil's market capitalisation and trading volumes.

**Table 13. Integrated Latin American Market (MILA)**

	Market cap (USD Bn)	Issuers	Traded volume (equity, USD Bn)	Intermediaries
Peru BVL	112	281	0.3	10
Colombia BVC	221	79	1.6	12
Chile BCS	268	227	4.5	12
Mexico BMV*	533	132	28	34
<b>MILA</b>	<b>1134</b>	<b>719</b>	<b>34.3</b>	<b>68</b>
Brazil BM&FBOVESPA*	1,236	352	142	90

Source: MILA as of December 2013 and \*BVC, February 2013.

60. Stock exchange officials concede that MILA has not led to the increased trading volumes that some had hoped for. Differences remain among the participating countries in terms of regulatory, tax and tariff policies. However, the initiative has led to increased co-ordination among the participating countries' regulatory authorities.

61. Regulatory initiatives addressed at furthering the development of capital markets include the following:

- Multi-fund pension system: the Integral Social Security System Statute was amended in 2009 allowing managers of mandatory pension contributions to offer three different funds for clients with three different risk profiles.
- Foreign portfolio investment: until 2010, foreign portfolio investors intending to invest in Colombian securities markets had to incorporate or join a foreign capital investment fund (FICE), which could be incorporated in Colombia or abroad. In 2010, the system was simplified as foreign portfolio investors no longer have to use a FICE as a vehicle to manage their investments in Colombian securities and money markets.
- Collective investment schemes: Decrees in 2013 updated the regulatory framework for collective investment schemes to modernize and facilitate access to securities markets for unsophisticated investors. Decree 1242 permitted specialisation of different activities by different institutions such as management, distribution and custody; and streamlined the authorisation process for vehicles investing in traditional assets, while improving transparency and advice of intermediaries for funds focused on non-traditional assets. To enhance investor protection and adapt to international standards, Decree 1243 designed a new framework regulating custodial activities.
- Tax and accounting reform: Congress approved a tax reform aimed at fostering and facilitating investments in securities; and IFRS was adopted as the applicable reporting standard for financial institutions. From 2015, IFRS is required for all financial institutions. SFC has

established the standards and requirements of intermediate financial statements (quarterly) and the end of business year statements under IFRS for reporting from March 2015.

- Development of a junior market: in May, 2014, the government enacted a reform (Decree 1019 of 2014) addressed at improving the performance of the junior market – *Segundo Mercado*. This segment targets sophisticated investors but streamlined the authorisation process for entities using this channel, and enable access to a wider range of companies, such as SMEs and one-time issuers for infrastructure projects.
- Infrastructure financing: in April 2014, the government enacted a decree addressed at facilitating infrastructure investment by banks and institutional investors. To promote pension fund investment in infrastructure, a special category of domestic private equity funds focused on infrastructure projects was created as a permitted asset class, so that it does not compete with other non-traditional investments. An adjustment in the individual credit risk concentration limit was also introduced to allow banks to increase their lending capacity to infrastructure projects.
- Price stabilisation for public offerings and automatic registration for well-known seasoned issuers (WKSIs): The Government issued a regulation in December 2014 to:
  - Price stabilisation: allow underwriters to subscribe and exercise an overallotment option (Green shoe<sup>11</sup>/ Brown shoe<sup>12</sup>) in connection with a public offering, to cover, if it is needed, the short position created with the overallotment of the issuance (plus 15%).
  - Automatic registration for WKSIs: propos regulations are setting out the principles that will allow the SFC to assess whether an issuer may qualify as a WKSI and, therefore, use a streamlined authorisation procedure. Some of the criteria taken into account for this purpose include: the frequency the issuer goes to the market, the amount of previous issuances and the existence – or more precisely, the lack – of sanctions arising from violations to securities markets regulations. The SFC has issued the external circular which allows issuers that maintain high standards of transparency and professionalism to have a simpler and faster issuance procedure.
- A regulatory reform project that would recognise public offering of foreign securities to Colombian investors, when the issuers has been authorised by a supervisory authority with which the SFC has a memorandum of understanding and supervisory protocols is being developed.

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<sup>11</sup> Green shoe: A provision contained in an underwriting agreement that gives the underwriter the right to sell investors more shares than originally planned by the issuer. This would normally be done if the demand for a security issue proves higher than expected.

<sup>12</sup> Brown shoe: or a reverse green shoe is a special provision in an IPO prospectus which allows underwriters to sell shares back to the issuer. A reverse green shoe is a put option.

## V. Financial supervision and regulation

### A. Regulation and supervision of financial markets

62. The Constitution of Colombia delegates the President and the Minister of Finance with the authority to regulate the financial sector, with the President given ultimate responsibility. All decrees relevant to the financial sector are signed by both the Minister of Finance and the President. The Constitution also delegates supervisory powers to the Superintendent of Finance, permitting measures of the SFC to be signed by the Superintendent for issuance. The President's authority relevant to the financial sector does not mean, in practice, that the President's Office interferes in financial sector issues.

63. The MoF defines the financial sector policy and is the main financial regulator, based on the studies and projects prepared by the recently created Financial Regulation and Financial Studies Unit (URF, *Unidad de Proyección Normativa y Estudios de Regulación Financiera*). The URF was established in 2013 to create an independent, technical entity to design financial regulation, and with resources to progress regulatory changes in line with international standards. The URF is formed as a separate agency of the MoF, with an autonomous role in financial regulation. Its budget is provided from the general budget of the government, but separate from the MoF.

64. All policy assessments and regulatory proposals have to be studied and approved by the Governing Council (*Consejo Directivo*) of URF. The Council, which has strategic, coordination and governance functions, and whose decisions are binding, has five members. Two of those members are independent. The other three members are the URF's Director (who is appointed by the President), the Minister of Finance or its delegate (*i.e.*, a Deputy Minister) and the Superintendent of Finance or its delegate. The two independent members are yet to be determined, given the need to prevent conflicts of interest.

65. The Governing Council approves a legal project before it is put to public consultation, and after the comments have been incorporated and finalised. They also take decisions on the institutional management of URF.

66. The URF has three deputy directors, one in charge of prudential regulation, one in charge of market integrity and development issues, and one in charge of institutional management. All team members are assigned to one of these subdivisions. As suggested above, technical studies and regulation proposals are typically prepared by an interdisciplinary group, working under the supervision of a deputy director.

67. The Superintendence of Finance (SFC) is the supervisor of the financial sector. SFC is a technical agency, which is self-financed subject to budget accountability and fiscal restraint. The SFC was created in 2005 through the merger of the Banking Superintendence (*Superintendencia Bancaria*) and the Superintendence of Securities (*Superintendencia de Valores*), supervising banks and other financial intermediaries, insurance companies and intermediaries, securities intermediaries and issuers and pension fund managers. The main source of SFC's resources (98%) are contributions from the supervised institutions. The remaining 2% comes from return on investment and fees for administrative services. The SFC's budget must be considered in the annual fiscal plan, and should be approved by the Congress when the Ministry of Finance presents it to the Congress in its annual fiscal budget.

68. The SFC's structure combines an institutional and risk-based model of financial supervision with two adjunct superintendents in charge of institutional supervision (*Delegatura Adjunta Para Supervision Institucional*) and risk and conduct supervision (*Delegatura Adjunta para Supervisión de Riesgos y*

*Conductas de Mercados*). The Superintendent of Finance – the head of the SFC – appoints the two adjunct superintendents.

69. The Superintendent of Finance is defined as one of the President’s agents in the Constitution, directly appointed and may be dismissed at any time by the President. This impinges on the independence of the SFC, and the Colombian authorities are seeking alternatives to enhance the *de jure* independence of the Superintendent. A draft bill appointing the Superintendent for a fixed term and to require a public explanation of the reasons for dismissal is being considered. This bill is still being internally discussed, and given the recent elections, the priority of the bill is yet to be determined and made public for discussion.

70. Colombia issued a Presidential decree in September 2015 that sets the term of the Superintendent in line with the President, and requires an administrative act for any early dismissal of the Superintendent.

71. The Superintendent is autonomous in terms of decision-making power within the framework provided by the law, although certain decisions have to be consulted with the Advisory Board (*Consejo Asesor*). The Advisory Council’s main function is mainly advisory, and decisions of SFC are made by the Superintendent. The Superintendent may also summon the advisory board for any other issue he considers necessary or convenient. The Advisory Board has five members, all of which have to be experts in economic, legal, financial or capital markets matters. They are appointed and dismissed by the President. Certain decisions that must be consulted with the Advisory Board include authorisations required for the establishment, merger, acquisition, conversion, or spin-off, of an entity subject to the SFC’s surveillance, as well as the adoption of emergency measures (e.g., rescue, restructuring and liquidation of troubled institutions).

72. Article 335 of the Colombian Constitution sets forth that financial, capital markets, and insurance activities, as well as any other pursuit involving management, exploitation and investment of resources from the public are of public interest. Consequently, carrying out these activities requires prior authorisation from the State or in practical terms the SFC. In line with the Constitution, the Financial System Estatute (EOSF) sets forth the general objectives and criteria the Government must pursue when using different policy instruments (e.g., regulation and supervision) in connection with the financial system and capital markets. For this purpose, financial authorities must:

- safeguard the interest of financial entities, clients, users, savers, investors, and insurance policyholders and protect their rights;
- ensure that capital requirements of financial entities are sufficient;
- ensure financial and capital markets transactions are conducted in a safe and transparent manner;
- promote competition and efficiency in financial and capital markets;
- promote financial inclusion;
- prevent systemic risk; and
- safeguard public confidence in the system.

73. The SFC’s employees are regulated by a salary regulation applicable to public employees. A decree in 2005 substantially improved the SFC’s salary regime by including several benefits such as: i) special reserve equivalent to 65% of basic salary, technical bonus, representation expenses and annual adjustment by seniority, ii) receive up to 50% of the basic salary a technical bonus depending on education

background and performance, iii) bonuses in June and December, each of these includes: basic salary, reserve, representation expenses, technical bonus, transportation support, salary adjustment by seniority and bonus by services.

#### Box 1. The Interbolsa case

Interbolsa, Colombia's largest stock exchange broker until its bankruptcy in November 2012, was at the centre of what may be Colombia's greatest market scandal and also what has become the occasion for Colombia's most extensive and elaborate actions to prosecute corporate officials and some of their clients for conduct related to conflicts of interest, insider trading, market manipulation and neglect of director duties.

Interbolsa, established in the 1990s, was a key player in the Colombian capital markets due to its innovative products and its tendency to take riskier positions in the market. In 2012, just before its bankruptcy, Interbolsa handled approximately 25% of transactions in the Colombia capital markets, according to SFC data, and had assets of over USD750 million and an estimated over USD4.5 billion under management. Most of Interbolsa's successful growth was associated with the development of the market for public debt during the 2000s, a market which mobilised over USD120 billion, according to statistics of the Colombian Central Bank (Banco de la Republica). Interbolsa was one of the largest brokers of public debt during all these years.

From 2008, the company group called "Grupo Interbolsa" participated in several financial vehicles, some supervised by the SFC (the stock broker company Interbolsa SCB and the administrator of private equity funds and investment funds Interbolsa SAI), and some not supervised, with direct investment in corporations directly or through its main shareholders. These non-financial investments included the commodities stock exchange (Bolsa Mercantil of Colombia -- BMC), an airline (EasyFly), a textile company (Fabricato) and a private fund in Curaçao among others.

Fabricato, a listed company since 1981, played a key role in the Interbolsa case. During the last decade, the textiles-producing company faced ongoing financial problems stemming from the lack of a competitive position for exports to the United States. However, some analysts considered that Fabricato may have had an opportunity for growth, due to the approval of the free trade agreement between Colombia and the US in 2011, a potential merger with a Brazilian company and its valued real estate in Antioquia.<sup>13</sup> Based on these findings, "Grupo Interbolsa" started an aggressive position to acquire stock of Fabricato directly, advised its clients to buy, and lent capital to some related investors (including the Premium Fund and Grupo Corridori) to acquire shares and derivatives convertible in stock.<sup>14</sup> Consequently, Fabricato shares jumped from Col\$29 to a high of Col\$84 during 2011.

By the beginning of November, 2012, "Grupo Interbolsa" was experiencing liquidity problems. The stock broker company Interbolsa SCB defaulted on payments, bringing about the liquidation of Interbolsa SCB by the SFC on 7 November, 2012. Some of the related parties of "Grupo Interbolsa" who had repo operations (short-term re-purchasing agreements) with stocks of Fabricato announced their impossibility to pay, a situation that led to the decision by the SFC to freeze the sale of the stocks of Fabricato pending the availability of more information for the market. By the time trading of Fabricato shares were re-authorized in March 2013, its share values had plunged to Col\$23.

Some, including the Inspector General (*Procurador General*), have argued that the oversight system did not function correctly, and that the SFC (and by implication the AMV as well) should have intervened more assertively and earlier to alert the Attorney General and to protect investors who had repo operations backed with Fabricato stocks, who were allegedly being misled by Interbolsa SCB. Nevertheless, there was also a public recognition that the decisions made by the economic authorities prevented a systemic crisis, given the size and the interconnectedness of the liquidated stock broker company with the financial system.

Others have been critical of the wider set of market actors such as market analysts and financial journalists who should have alerted the public that there was no obvious explanation for why Fabricato's share prices kept rising despite the absence of underlying fundamentals to support the rapid rise.

Still others point to positive outcomes from the process that show that violations related to market manipulation, insider

<sup>13</sup> See "Interbolsa: la debacle anunciada". in *El Espectador* (November 2013):

<http://www.elespectador.com/noticias/investigacion/interbolsa-debacle-anunciada-articulo-386382>

<sup>14</sup> See "Las cifras de Interbolsa" *El Espectador* (November 2013):

<http://www.elespectador.com/noticias/economia/cifras-de-interbolsa-articulo-386681>

trading, and conflicts of interest will be punished in the Colombian market. As of July 2014, 37 people involved in the Interbolsa case including directors and officers, had criminal charges pending for infractions related to market manipulation, insider trading, unfair administration and conspiracy. The Attorney General's office has created a specialized judicial police unit for economic and financial crimes, and the SFC has committed four people from its staff to help in their investigations and processes.

The case has reportedly strengthened Colombian market consciousness of the importance of corporate governance, especially for boards of directors, their audit committees and their independent directors in holding and subsidiary companies, who have become more aware of their roles and responsibilities.

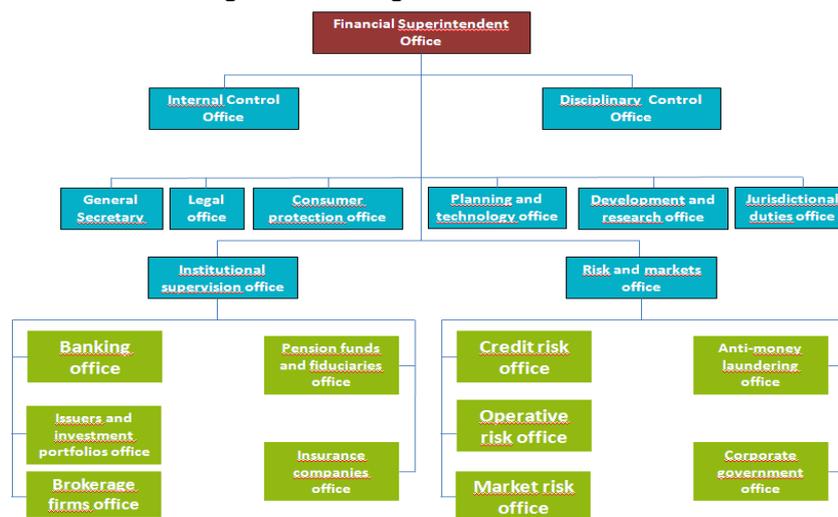
It has also increased the attention given to the role and responsibility of market regulators, including the importance of co-ordination between the SFC and *Autorregulador del Mercado de Valores* (AMV is the self-regulatory organisation of the securities market); the scope and effectiveness of SFC's supervision of conglomerates (financial & non-financial) and of related party transactions of financial entities; the importance of having effective internal and external auditors; and the lack of transparency of off-shore transactions. The Inspector General prosecuted the Superintendent of the SFC, Gerardo Hernández, for insufficient monitoring of Interbolsa and failing to adopt preventive measures to protect investors. An appeal has reduced the initial sentence of suspension and inability to hold public office from 12 years to 10-months, without any further disabilities. Mr. Hernandez is scheduled to return to office as Superintendent in February 2016.

It is widely recognized in Colombia that this crisis tested the institutional framework in which local economic authorities including the Central Bank, Finance Ministry, SFC, AMV, Stock Exchange and financial system as a whole co-ordinated their actions to prevent systemic risks to market liquidity and confidence. It is against this background that new regulations were issued tightening oversight of trust companies, collective investment funds, and credit rating agencies. The SFC has also issued a proposal to update the comply-or-explain national corporate governance code, the *Código País*, with much more detailed recommendations for good market practices.

Sources : SFC, press reports, Andres Bernal

74. There are five divisions under the umbrella of each directorate of SFC. The divisions within the scope of the Directorate for Institutional Supervision are the following: (i) the financial intermediaries division; (ii) the pensions, severance and trust companies division; (iii) the insurance division; (iv) the securities intermediaries division; and (v) the securities issuers division. The Directorate for Risk and Conduct Supervision, in turn, leads the following divisions: (i) the credit risk division; (ii) the money laundering and terrorism financing risk division; (iii) the market risk and integrity division; (iv) the operative risk division; and (v) the conglomerates and corporate governance risk division.

Figure 16. Organisation chart of SFC



Source: SFC

75. Accountability of financial authorities is carried out through the obligation to publish annual reports on their activities (MoF, the URF, the SFC, the BR, and FOGAFIN), and annual hearings before Congress. All entities are required to have internal management and control mechanisms to track progress with proposed goals. The President's Office regularly monitors accomplishment of policy goals and objectives within the Executive branch.

76. There is no clause in the statutes to legally protect the SFC and its staff in case of legal actions and administrative proceedings in connection with their activities. The SFC is required to acquire a directors and officers liability insurance policy, which should cover losses and damages incurred by the SFC and certain directors and officers, should they be found liable of unlawful behaviour in connection with their activities; The SFC also covers any expenses incurred by these directors and officers in case of judicial or administrative proceedings against them. However, neither the SFC nor its staff are fully protected against disciplinary and legal actions from control agencies – e.g., the Inspector General (*Procuraduría General de la Nación*) and the General Comptroller Office (*Contraloría General de la República*) – or lawsuits from private parties. It has become apparent in the Interbolsa case discussed in Box 1 that the SFC does not have legal protection for its supervisory actions. Principle 1 of the Basel Core Principles of Effective Banking Supervision requires “protection (normally in law) from personal and institutional liability for supervisory actions taken in good faith in the course of performing supervisory duties” as a precondition for effective banking supervision, as do the IOSCO and IAIS principles on supervision.

### ***B. Taxation and recent regulatory developments in the financial sector***

77. Colombia has a financial transaction tax of 0.4% for all withdrawals from accounts. Withdrawals of up to USD5000 from one designated account per month are exempt from this tax. This tax was originally introduced at the end of the 1990s to pay for a financial crisis. However, it has remained in place as it collects taxes of nearly USD3 billion each year for the general government budget. In this respect, it no longer serves the purpose for which it was established, and legislation states that it should be removed by 2018.

78. As a result of the lessons learnt from the financial crisis, the increasing complexity of banking activities and the variety of risks that financial intermediaries face, a decree was enacted in 2012 modifying capital adequacy standards and introducing a Common Equity Tier 1 requirement for credit establishments and to comply with Basel III principles. The new capital requirement sets Common Equity Tier 1 to be at least 4.5% of risk-weighted assets. The decree came into effect in August 2013, with banks already complying with the new requirements. The Colombian financial system has a capital adequacy ratio of 14.6% implementing market risk based on Basel II, credit risk based on Basel III, and operational risk currently being discussed to notionally apply Basel II standards. Capital buffers are not implemented given that the Colombian system has counter cyclical provisions, and a leverage ratio has not been introduced.

79. During 2013, several changes to the regulation of mutual funds came into force aimed at providing wider access to financial services. It is projected that the amount of assets managed by pension and other investment funds will continue to grow as a share of GDP as well as a result of the reduction in the tax rate for foreign investors established in the 2012 tax reform. In the mid-term, financial inclusion is expected to increase as a result of the implementation of the Financial Inclusion Strategy launched in early 2014.

80. The Government passed legislation in October 2014 simplifying the licensing of specialised institutions which only provide payment, savings and deposit services. A government decree was passed in 2015 setting the procedural rules for opening deposits, cash management, use of network and the required leverage ratio for these specialised institutions. The objective is to increase competition in this sector by

reducing entry and operational costs, simplifying delivery of certain services, and facilitating access to the financial system to customers that are underprivileged.

### ***C. Financial stability oversight and macro-prudential surveillance***

81. To enhance coordination on financial stability between relevant authorities, a high level committee, the Financial System Coordination Committee (FSCC) was formed with participation from the Minister of Finance, the Governor of the Central Bank (BR), the Superintendent of Finance, the Director of the Deposit Guarantee Fund (FOGAFIN) and the Director of URF. The FSCC oversees the integrity and stability of the financial system, by easing and promoting information sharing between members, and assessing any potential risks within the financial system. It is also intended to facilitate coordinated actions, when required. It does not have enforcement power by itself.

82. The FSCC must meet on a quarterly basis; however, it may meet extraordinarily at any time, at the request of any of its members with the mandate of strengthening financial stability. It serves as a vehicle for coordinated decision making and has a medium-term agenda that includes the development of an early warning system for systemic issues, issue resolution decisions and an interagency information sharing protocol. For example, FSCC is currently discussing living wills of financial institutions.

83. Macroprudential responsibility is jointly assigned to the MoF, the SFC and BR. Coordination, however, is achieved via the FCCC. The FSCC facilitates coordinated actions, when required, and members of FSCC can be held accountable for agreed action.

84. The FSCC is agreed on the methodology of determining locally systemically important financial institutions. BR presented a proposed methodology to the FSCC based on the BIS methodology for G-SIFIs in July 2014. As any additional capital requirements to locally systemically important financial institutions will require a change in the decree, BR is planning to publish the methodology after any decree change. A higher risk charge will likely be applied according to the risk exposure applicable to any systemically important financial institution. The BR has been monitoring locally systemically important financial institutions based on the methodology on a quarterly basis.

85. FOGAFIN administers deposit insurance as well as other guarantees and some resolution mechanisms. The current coverage ceiling is COP\$20 million (about USD10,500) per depositor, per institution. Previously, deposit insurance was financed by an *ex ante* one-time registration fee and annual premiums of 0.3 percent of the banks' annual liabilities. But since 2014, FOGAFIN has introduced a risk-based adjustment to its premiums based on quarterly liabilities of banks, and taking into consideration banks' risks such as size, complexity and leverage. The total amount of the premium may be adjusted depending on the institution's CAMELS rating, which is a composite of a variety of indicators of a financial institution's financial condition.

86. FOGAFIN is the resolution authority with authority to provide financial assistance to banks, and administers financial institutions which SFC declares under administration and liquidation. FOGAFIN also provides open bank assistance, and conducts modified purchase and assumption transactions based on assessments provided by the SFC.

87. Corporate governance requirements are the same for all financial institutions. Banks are subject to strict risk management rules, often following the Basel Committee on Banking Supervision's recommendations leading to regulations on credit, liquidity, market, operation, money laundering and terrorism financing risks.

88. Trust companies are subject to different regulations related to their best-effort duties (*obligaciones de medio*), rather than an obligation to achieve a specific outcome (*obligaciones de*

*resultado*). The Government is working on a proposal to enhance capital and solvency requirements for trust companies and broker-dealers. The SFC issued an External Circular in February 2015 setting out the methodology for measuring liquidity risk, and the standard reporting and mandatory limits applicable to open collective investment funds.

89. Supervision of financial conglomerates can be carried out for individual regulated financial institutions in the group and for a bank holding company. But there are some limitations to the supervision of non-financial holding companies. Improvements in the legal framework have empowered SFC to conduct on-site exams and obtain necessary information from unsupervised members of financial conglomerates, to order the consolidation of financial statements of companies of these conglomerates, to exchange information with foreign supervisors and to authorise investments in the capital of foreign entities. However, the SFC does not have any enforcement or intervention powers towards non-financial holding companies and would benefit from broader legal authority, especially to oversee currently unregulated non-financial holding companies and to force changes in a group's structure if necessary for macroprudential purposes. While capitalisation of individual financial institutions can be requested by SFC, the SFC has no power to verify whether capital has been recycled within a financial conglomerate. SFC does have power over the non-financial holding company in so far as they issue securities. However, this is a limited power that cannot be used for issues of financial conglomerates.

90. The Government is planning to present a bill to Congress in October 2015 addressing enhancing regulatory and supervisory powers over financial conglomerates. The bill's main objectives are to:

- ensure that financial conglomerates and financial holding companies comply with prudential and risk management standards that guarantees the stability of its companies and be comprehensively supervised;
- promote a comprehensive and coherent corporate governance framework for financial conglomerates, including adequate information disclosure and internal audit policies of its companies; and
- ensure that the supervisor has timely access to comprehensive information on the structure of financial conglomerates and their activities and risks, and can take measures to ensure a transparent structure and exert comprehensive and effective supervision over the activities of financial conglomerates.

91. Groups are only defined in the Company Law which assumes a vertical group structure. The intention is to define, in the financial sector laws, a definition specific to financial conglomerates, taking into consideration their more horizontal structure. The URF and MoF are working on a proposal to enhance capital and solvency requirements for trust companies and broker-dealers.

92. The rules for limiting large exposure could be simpler and allow for fewer exceptions. Currently there are a large number of exceptions which make effective supervision complicated and permit circumvention of large exposure limits. Local affiliates are not consolidated and available unused credit lines are not taken into account in calculating neither large exposure limits nor related party lending. The definition of corporate control may create opportunities to bypass the related party limits.

93. The URF is working on a draft decree to establish a more comprehensive and simpler set of regulations for large exposures. This new framework is being based on the BIS methodology of large exposures. The decree would:

- Give greater clarity of exposure limits and broaden the scope of the application of the large exposures framework at a consolidated level (incorporating local affiliates) and a wider definition of counterparties and group of connected counterparties.
- Include all exposures that present a risk of obligations not being fulfilled;
- Simplify the number of limits established and reduce the number of exceptions;
- Facilitate the supervision mechanism; and
- Establish clearer definitions regarding transactions understood to have been carried out with the same person.

94. Supervisory colleges have been arranged for Banco de Bogota, Bancolombia and Davivienda with the participation of various foreign supervisory agencies. SFC is a member of the Central American Council of Banking Supervisors which coordinates with the host supervisors of the three largest Colombian groups.<sup>15</sup>

#### ***D. Early intervention and winding-up/insolvency***

95. SFC has the following tools for early intervention of financial institutions in order to prevent insolvency or administrative takeover:

- *Special surveillance* (art. 113 EOSF): SFC can implement additional surveillance measures on a given company in order to prevent the company from having to be taken over. This measure allows SFC to impose special requirements for a company that would allow it to restore or continue its normal operation.
- *Recapitalization* (art. 113 EOSF): SFC can order shareholders to inject more capital in its operation in order to prevent insolvency or takeover measures.
- *Fiduciary administration* (art. 113 EOSF): SFC can entrust the administration of a financial institution to another supervised institution, such as a trust company.
- *Assignment of assets, liabilities and contracts or sale of the commercial establishment* (art. 113 EOSF): SFC can promote the transfer of financial institutions' assets, liabilities or contracts to another financial institution, or the sale of its commercial establishment, in order to prevent the company from entering insolvency.
- *Mandatory merger or spin-off*: (art. 113 EOSF): SFC has the power to order a financial institution to merge with another (consenting) company. The SFC summons the shareholders of both the intervened and the prospective merging company to approve the transaction. The failure of this proceeding constitutes a ground for placement of the intervened company under administrative takeover.
- *Recovery program* (art. 113 EOSF): When a financial institution shows detriment in its operational and/or financial situation, as measured by certain key indicators, the SFC has the power to order the implementation of an action plan through which the company will recover its normal operational or financial conditions.
- *Exclusion of assets and liabilities* (art. 113 EOSF): In order to prevent insolvency or takeover measures, SFC has the power to order the exclusion of determined assets and liabilities from its capital.

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<sup>15</sup> From the FSAP report of 2013.

- *Progressive dismantlement program*: a financial institution that wishes to wind-up its business may request the SFC to approve an orderly “run-off” proceeding, allowing the entity exemption from legal requirements that it may not be able to meet during the process.
- *Administrative takeover of assets, liabilities and agreements* (art. 114 EOSF): Previous to ordering a liquidation of a financial institution, the SFC must “take over” the company, replacing the management with a Special Agent (civil servant) appointed by FOGAFIN (deposit insurer), measure, in order to determine if it is possible to rehabilitate the company, putting it in normal operational or financial conditions, or if liquidation is necessary.

96. The Financial System Statute (EOSF) determines the events in which an administrative takeover is possible and required. The grounds for intervention are recurrent breaches of law and regulations, repeated unsound practices, failing to comply with the SFC’s orders, a moratorium or delay/suspension of payments of obligations, failing to comply with minimum capital requirements, increase of losses that significantly affect equity (patrimony) lowering it to 50%, or breaches in the solvency requirement and the guarantee fund. If the financial institution fails to comply with the guarantee fund the SFC must issue an administrative takeover measure.

97. Insolvency regulation of financial institutions is included in EOSF (arts. 114 to 117), as well as in Decree 2555 of 2010 (arts. 9.1.3.1.1 et. sec.). Once SFC has determined that a company must be liquidated, an administrative decision (*Resolución*) must be issued ordering the liquidation. Once the decision is issued, SFC takes control of the assets, businesses and liabilities of the company while FOGAFIN (Colombian deposit insurer), the governmental authority in charge of overseeing the liquidation of entities subject to the supervision of the SFC, appoints an officer (civil servant) to act as liquidator of the intervened company. Once the liquidator is appointed, SFC tenders the company to him/her and the winding-up proceeding (liquidation) takes place.

#### ***E. International surveillance assessments***

98. A Financial Sector Assessment Programme (FSAP) of Colombia was carried out in 2013 with a list of recommendations to improve the regulation and supervision of the financial sector (see Annexes II and III for the lists of recommendations). The recommendations that was a short-term high priority were the lack of independence of the SFC and strengthened legal protection of supervisors, which some aspects have been addressed by a Presidential Decree of 2015.

99. The FSAP assessed that Colombia has a robust framework for AML/CFT and for addressing criminal activities. The SFC works closely with the Unit for Financial Information and Analysis (UIAF) which takes the lead in monitoring compliance with this framework, and the SFC’s legal and regulatory framework provide guidance for the oversight for reporting.

#### **Box 2. Main recommendations from FSAP (2013)**

*Strengthening independence.* The SFC has considerable de facto independence to undertake operations required by its mandates, and the supervisor carries out his functions with no political interference. However, there are issues with the de jure independence of the SFC, as the President can dismiss the superintendent at any time without cause. Possible reforms to improve independence could include the requirement to appoint the superintendent for a fixed term or to require a public explanation of the reasons for dismissal.

*Strengthening legal protections.* The SFC and its staff lack legal protection for acts carried out in good faith performance of their official duties. While some procedures help shield staff, there is still a potential chilling effect on appropriate action. The legal framework could clarify that liability for failure to perform the regulatory mandate in good faith should be defined as equivalent to acting in bad faith; and that the judicial authorities might limit those

circumstances in which private parties would have standing to sue.

*Adopt a law extending its full regulatory and supervisory powers to holding companies of financial institutions.* The SFC has no regulatory powers over financial holding companies, which can complicate its capacity for effective oversight. Such a law should provide a clear definition of financial group and give the SFC the powers to resolve a financial conglomerate as a whole. Now the SFC can resolve supervised members of conglomerate only on an individual basis.

*Adopt IFRS.* The SFC recently published a timetable for the full adoption of IFRS by end-2015.

*Strengthen standards for external audits.* The government issued a Decree in 2015 which institutes the International Auditing Standards (IAS) in the regulatory framework. Under the new regulatory framework, all supervised entities and securities issuers shall follow the IAS for the audits of the financial statements under IFRS. The SFC will continue to request the official appointment of external auditors appointed by the board of directors of supervised entities.

## ***F. Self-regulatory organisations***

100. There are nine associations in the financial sector:

- Asociación Bancaria – Asobancaria, representing credit institutions;
- Asociación de Comisionistas de Bolsa de Colombia – Asobolsa, representing broker-dealers;
- Asociación de Fiduciarias de Colombia – Asofiduciarias, representing trust companies;
- Asociación de Administradores de Fondos de Pensiones y Cesantías – Asofondos, representing pension and severance fund managers;
- Federación de Aseguradores Colombianos – Fasescolda, representing insurance companies;
- Confederación de Cooperativas de Colombia – Confecoop, representing the interest of cooperatives in general, including financial cooperatives;
- Asociación de Compañías de Financiamiento – AFIC, representing financing companies;
- Federación Colombiana de Compañías de Leasing – Fedeleasing, representing leasing companies; and
- Asociación Nacional de Instituciones Financieras – ANIF, representing several financial institutions.

101. The 2005 Securities Market Statute (“Law 964”) states that all securities market intermediaries – including broker-dealers, banks, trust companies, pension fund managers, mutual fund administrators, and firms with direct access to registered trading platforms, among others – must join a self-regulatory organisation (SRO). Consequently, SROs are subject to the SFC’s supervision. SROs have rulemaking, oversight, disciplinary/enforcement and certification powers.

102. Currently, the *Autorregulador del Mercado de Valores* (AMV) is the only operating SRO in the Colombian securities market. AMV is a private, non-profit corporation, ruled by the Colombian Constitution, Law 964, other applicable regulations (e.g., Decree 2555 of 2010), and its articles of incorporation. It was incorporated in 2006 pursuant to the SFC’s authorisation. The SFC’s oversight powers extend to the following items: approval of internal rules and amendments thereof; corporate governance structure; management of conflicts of interest; and member compliance of AMV’s rules and articles of incorporation, among others.

103. In order to ensure coordination between the SFC and AMV, they entered into a memorandum of understanding (“MoU”) defining the nature of their relationship and the extent of each entity’s powers. This MoU designates AMV as the front-line regulator and supervisor for market conduct of the securities

market. Both entities discuss inspections, evidence, queries, complaints, etc. AMV's functions are: rulemaking function, supervision, disciplinary function, and certification function.<sup>16</sup>

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<sup>16</sup> From AMV's webpage, retrieved from [http://www.amvcolombia.org.co/eng\\_ver/index.php?pag=home&id=80|0|0](http://www.amvcolombia.org.co/eng_ver/index.php?pag=home&id=80|0|0) on April 14, 2014.

## VI. International financial integration

### A. Recent developments in cross-border investment

104. Colombia has been progressively integrating into the global economy during the past two decades, which started in the 1990s with “the Opening” (*la Apertura*), a series of structural reforms covering foreign investment, foreign trade, foreign exchange, a financial reform and some fundamental institutional changes, such as the independence of the central bank. This has resulted in increasing stocks and flows of foreign investment, both to and from Colombia. In 2003, the stock of foreign investment in Colombia was USD57.8 billion which at end-2013 reached USD232.1 billion. Colombian residents’ investments abroad which were USD29.2 billion in 2003 reached USD127.9 billion at end-2013.

105. Colombia started a process of liberalisation in the 1990s which covered the financial sector. Traditionally, Colombia has been a host (rather than a home) country for FDI, and authorities have focused their efforts on attracting foreign investment into the country and developing the appropriate incentives for this purpose. However, in recent years, Colombian companies have started to become foreign investors, in particular financial institutions, starting a process of international expansion, focusing in Latin America and the Caribbean.

106. In order to manage the high degree of openness and growing integration with international financial markets, Colombia has used an unremunerated reserve requirement (URR), which acts as a deposit discouraging capital inflows, as well as measures limiting the foreign currency exposures of banks and other financial institutions.<sup>17</sup> The URR was introduced in 1993 at a time when existing controls and monetary policy measures failed to quell the surging peso. In adopting the URR, the Colombian authorities were inspired by a similar mechanism used by Chile. The URR was introduced by the authorities as part of the strategy to liberalise the capital account.

#### Box 3. The URR mechanism in Colombia

The URR consists of a foreign indebtedness component regulated by the BR, and portfolio flows components are regulated by the MoF. The URR may be applied to all capital flows or to some in particular. Application of the measure requires coordination between the central bank and the government, as each has jurisdiction for specific operations. Closing loopholes and avoiding circumvention of the measures requires a coordinated effort and responsiveness to the development of new instruments and arbitrage possibilities.

The BR component consists of a requirement to maintain a certain deposit/reserve on any foreign indebtedness, which, for the purposes of the Colombian URR mechanism, includes any borrowing by residents from non-residents, as well as the sale abroad by residents of debt securities.

The MoF component consists of a requirement to maintain a certain deposit/reserve on any purchases of securities in Colombia by non-residents which are classified as portfolio investment, a part of inward foreign investment, under Colombian regulations.

When originally introduced in 1993, the URR consisted of an obligation of residents to set aside or reserve for one year, in the form of a non-interest bearing deposit with the central bank, the equivalent of 47% of the amount of any loan obtained from a non-resident having an original maturity of 18 months or less. The URR mechanism was modified frequently over the course of the following seven years with respect to the rate of the reserve requirement (the share of the loan amount to be held in the non-interest bearing deposit), the duration of the deposit requirement, and maturity of loans subject to it (the URR was eventually applied to all disbursements regardless of the foreign loans’ maturity). Requirements were tightened in order to address the continued pressure from capital inflows on the economy. As these pressures eventually eased, so were requirements. The percentage share of funds borrowed from abroad on deposit with the BR was eventually brought to zero in May 2000.

<sup>17</sup> See further discussions on this topic in the Investment Committee report ([DAF/INV/ACS\(2014\)1](#)).

Economic activity strengthened between 2004 and 2007 (in 2004-2008 GDP growth averaged 5.4% per year) as Colombia benefited from an improved internal situation in terms of security and confidence, as well as strong world demand for its exports and improved terms of trade. Increased capital inflows provided support to aggregate demand and by mid-2005 rising inflationary pressures put at risk the inflation target of BR. BR took two complementary measures to attenuate the rising leverage of the private sector: an additional reserve requirement on bank deposits and reactivation of the URR. The reserve requirement on bank deposits – if effective – would bring about an increase in the cost of domestic bank loans. Under these circumstances, if the cost of external loans were to remain unchanged, then the measures would generate a strong substitution effect as residents would resort to external loans as a source of financing. Such a development would not only defeat the intended objectives of reining in the leverage of the private sector and correcting aggregate demand, it would also foster mismatches in the balance sheets of the private sector, creating unwanted imbalances.

In 2007, BR assessed that the transmission mechanism of the financial system was not effective as changes in the interest rate were not being reflected in some types of lending, in particular consumer credit. While the price of public debt was decreasing, commercial loans were being borrowed from abroad. BR raised the reserve requirement to control credit growth, and then imposed in May 2008, a 40% deposit on foreign indebtedness (the deposit on foreign portfolio investments accounted for 50% of the total amount of the investment), liquidated at the representative market rate (*tasa representativa del mercado* – TRM<sup>18</sup>) of the day the deposit had to be made, and the redemption term was six months. In May 2007, it was stipulated that the deposit should be made in Colombian pesos. However, in November of the same year, BR allowed deposits to be made in U.S. dollars. Furthermore, it was stipulated that BR would return the deposit before its maturity, subject to a discount factor table.

The same treatment was extended to deposits on portfolio investments. The percentage of the deposit was set in order to equalize the internal and the external rate for a short term credit (six months). The URR for foreign indebtedness for pre-finance of exports was set at 11% of the value of the disbursement when the deposit was made in Colombian pesos and had a term of 12 months and at 20% of the value of the disbursement when the deposit was made in US dollars and had a restitution period of 12 months. However, the MoF only implemented a deposit on portfolio flows 50 days later than BR's regulation on foreign indebtedness, creating a loophole for capital flows. If the URR were ever to be activated again, greater coordination on the timing of measures would need to be improved.

According to academic literature, the URR did not have a significant impact on the overall amount of capital inflows; its major contribution has been to change their composition towards longer term, more stable inflows. This change in the composition of capital inflows has reduced the vulnerability of the economy, which has been the main concern of the authorities. In the authorities' view, the URR has provided them with an effective means by which to deal with surges in capital inflows, which may lead to overexpansion of credit or inflated asset prices, and be followed by a sudden stop. BR has stated its preference to avoid the use of URR.

## ***B. Securities and other financial market instruments***

107. As a general rule, obligations in Colombia may be denominated in any currency, but they must be settled in Pesos. If the transaction is an FX transaction, it must be settled in the foreign currency. Foreign denominated accounts can be opened by special registration for exporters and diplomatic missions. BR can regulate the currency denomination of financial contracts. In general, Resolution 8 does not impose restrictions regarding the currency denomination and payment of foreign exchange transactions conducted by Colombian residents and non-residents. Guarantees sold to residents going abroad can be sold in foreign currency denominated contracts. Foreign exchange operations include, among others, foreign indebtedness, guaranties and sureties and some financial transactions. However, there is an exception for derivative operations, which can only be conducted in certain reserve currencies<sup>19</sup>, as defined in article 72 of

<sup>18</sup> Article 80 of Resolution 8 defines TRM as the market exchange rate that results from purchase and sale transactions of foreign currency, as calculated and certified by the SFC, based on the available information and in accordance with the methodology established by the BR. To calculate this rate, overnight and derivative transactions should be excluded.

<sup>19</sup> Currently, recognised reserve currencies include the following: DKK, NOK, SEK, AUD, CAD, USD, NZD, EUR, CHF, GBP, JPY, CNH/CNY, HKD, SGD and KRW.

Resolution 8, as well as in the legal tenders of Colombia, Venezuela, Ecuador, and other currencies quoted in international information services indicated by the central bank. In view of the measure's material impact on limiting use of funds deposited in non-resident accounts in domestic currency, the measure is reflected in a proposed reservation under item XI/A(1) of the CLCM.

108. Additionally, there are regulations regarding settlement of these operations, determining whether these should be settled in a foreign currency or in Colombian pesos. Settlement in pesos is permitted as long as: (i) it is a transaction between a Colombian resident and a foreign exchange market intermediary ("FEMI") or a foreign financial entity, provided the Colombian resident's position results from an operation which must be channelled through the formal exchange market; or (ii) the contract has been entered into between a FEMI and a non-resident who has either registered a foreign investment in Colombia before the central counterparty or is a securities issuer. FEMIs are authorized to sell any currency required to pay obligations abroad. Residents may channel, through the formal exchange market, a currency different from the one initially stipulated by the parties.

109. Prior approval and registration requirements are in force. For admission (issue and introduction) of foreign securities, Colombian authorities have explained that these measures are intended to assure investor protection. These measures are equivalent for foreign and domestic issuers and do not lead to proposed reservations under the CLCM, except for special requirements for issuers that do not have a prior listing on a recognised stock exchange or trading system. Admission of foreign securities for public offer is expressly authorised in law (Article 5.2.1.1.2 of Decree 2555); both issue and introduction are subject to prior registration with the SFC. Public offer of securities occurs when the offer is addressed to indeterminate persons, or to more than 100 identifiable persons (Article 6.1.1.1.1 of Decree 2555). Offerings of securities to less than 100 identifiable persons are considered as private and, therefore, are not subject to registration requirements from the SFC. Foreign issuers may only publicly offer in Colombia securities which could be publicly offered in their home jurisdiction and which benefit from adequate investor protection. Otherwise, the SFC's registration requirement applies to foreign and domestic securities alike.

110. Securities must be registered with the National Securities and Issuers Registry (*Registro Nacional de Valores y Emisores* – "RNVE") before they can be listed on the Colombian Stock Exchange (*Bolsa de Valores de Colombia* – "BVC").

111. The authorities are considering the possibility of migrating to a depository receipts system as the main channel available to foreign issuers wishing to access Colombian markets. Closing channels to issue foreign securities other than through depository receipts, could have implications on Colombia's proposed list of reservations. In particular, a reservation would be needed for securities operations of the CLCM under item A.1 "Issue through placing or public sale" to cover the proposed measures. For operations in securities in capital markets (item IV) and operations in collective instrument securities (item VII) which are falling under List A, a standstill obligation would apply following Colombia's adherence to the Codes.

112. The Colombian authorities have noted that they are considering changes to the registration and listing procedure for foreign securities issuers as part of the Financial Regulation Unit's (URF) reform agenda which is expected to be announced in late 2015. The regulatory reform project contemplates the public offering of foreign securities to Colombian investors for securities which have been authorised by a supervisory authority with which the SFC exchanged a memorandum of understanding and supervisory protocols. The Colombia authorities are seeking to avoid the granting of preferential treatment to any party to the extent that Colombia will stand ready to provide equal opportunity to any interested OECD Members to enter into such a memorandum of understanding and establish the needed supervisory protocols.

113. There are no restrictions on the listing of securities abroad, the sale of securities abroad by residents or the purchase by non-residents of domestic securities.

#### *Operations by residents abroad*

114. Colombian issuers access foreign markets through private and public placements of securities, notably by placement of Colombian companies' ADRs on United States' stock markets and by using the safe harbour provided for in Rule 144A and Regulation S of the U.S. Securities Act of 1933. The Colombian authorities see this phenomenon as part of the natural evolution and growth process of local companies. Books 12 and 13 of Chapter 6 of Decree 2555 of 2010 expressly authorise Colombian securities issuers to issue and offer securities abroad.

115. Registration requirements are in force requiring issuers to register issues abroad with BR and/or the SFC. These registration requirements need not be considered to be restrictions under the Code, to the extent they can be considered to fall within the purview of Article 5 on controls and formalities used to prevent evasion of existing domestic regulations.

#### *Operations by non-residents in the country concerned*

116. Until 2010, foreign portfolio investors intending to invest in Colombian securities markets had to incorporate or join a foreign capital investment fund (FICE), which could be incorporated in Colombia or abroad. The Ministry of Finance and Public Credit eliminated this requirement to simplify the system and facilitate foreign portfolio investment. According to the new regulations, foreign portfolio investors no longer have to use a FICE as a vehicle to manage their investments in Colombian securities and money markets.

117. The Colombian authorities require non-residents to carry out their transactions through an "authorized manager"; that is, a resident stockbroker (*sociedad comisionista de bolsa*), trust company (*sociedad fiduciaria*), or investment manager (*sociedad administradora de inversión*) that are subject to the SFC's supervision. The Colombian authorities have noted that this requirement is intended to ensure compliance with securities laws and regulations (Decree 2555 of 2010, Decree 2080 of 2000 and included in Decree 1068 of 2015), particularly in connection with registration procedures for investments, tax evasion and money laundering. These requirements are in line with remarks under items IV, V, VI and VII of the CLCM to the extent that Members may require that "such transactions and transfers must be carried out through authorised resident agents".

#### ***C. Market access for foreign institutions and investors***

118. Colombian residents are generally free to purchase almost any financial or capital market product or service abroad. There are exceptions for products associated with the general mandatory pension system, as well as for a few forms of insurance (e.g., mandatory insurance products, insurance products, the purchase of which requires demonstrating prior acquisition of a mandatory insurance and insurance policies where the National Government is the policyholder or beneficiary).

119. For investment services, only resident financial institutions are allowed to provide investment services (Article 53.2 of the EOSF and Article 3 of Law 964 of 2005). Similar rules apply for the provision of asset management services. Thus, only locally-incorporated brokerage firms (*sociedades comisionistas de bolsa*), investment management companies (*sociedades administradoras de inversion*) and trust companies (*sociedades fiduciarias*) are authorised to provide cash and portfolio management services.

120. Colombian authorities are not ready to consider branching in financial services other than banking and insurance services, in which the international framework for co-operation on prudential

supervision for securities firms and other non-bank financial services is less well established compared to banking and insurance.

121. This restriction on branching in financial services other than banking and insurance gives rise to proposed reservations under item I/A of the CLCM and under item E/7 of the CLCIO.

122. Colombian residents are, however, free to acquire almost all these services abroad if there is no solicitation on the part of the non-resident entity (i.e., if the contractual relationship has been initiated at the client's initiative). Hence, as long as neither the non-resident asset manager, nor a person acting on its behalf, contacts the client for the purpose of offering its services, the client is free to purchase asset management products from non-residents. Furthermore, the service cannot relate to the mandatory general pension system (*sistema general de pensiones*). These exceptions, narrowing the scope of the restriction, have been carved out from the proposed reservation under item E/4 of the CLCIO.

123. The above measures constitute a restriction under the CLCIO and they have been reflected in a proposed reservation under item E/2 of the CLCIO.

124. Incorporation requirements are also applicable for the provision in Colombia of payment, settlement, clearing, custodial and depository services. For item E/1 (Payment services) the provision of these services in Colombia is reserved to authorised, established entities. This measure is reflected in a proposed reservation under item E/1 of the CLCIO.

125. Non-residents who want to conduct banking activities in Colombia can either incorporate a subsidiary or establish a branch. Both processes require prior authorisation from the SFC. Colombia maintained restrictions on the establishment of branches of non-resident enterprises in financial services until recently. These restrictions have been eased since 2013 when Law 1328 adopted in 2009, which authorised branching in banking and insurance, entered into force. For item E/2 (Banking and investment services), only resident financial institutions are allowed to provide banking and investment services (Article 53.2 of the EOSF and Article 3 of Law 964). Colombian residents may, at their initiative, acquire banking and financial services abroad.

126. Branching is not available as a form of establishment for financial services other than banking, including securities firms and other non-bank financial services, trust companies and securities agents, securities deposit and custody agencies, investment managers, and financial corporations, among others. Incorporation requirements also apply to stock exchanges, agricultural commodities exchanges, clearing houses for derivatives.

127. Prior authorisation from the SFC is required before foreign banks may open representative offices in Colombia. Furthermore, representative offices are designed to perform advertising of financial products of foreign financial institutions, in accordance with the provisions of Article 4.1.1.1.7 of Decree 2555 of 2010, whereby they cannot directly conduct financial transactions of any kind. Practically speaking, representative offices are used to channel cross-border transactions. Prior authorisation from the SFC is required before foreign banks may open representative offices in Colombia, a restriction that is reflected in a proposed reservation under item E/7 of the CLCIO.

128. In response to the CMF Chair's letter, a public consultation process for a decree simplifying the process of establishing a representative office of reinsurance companies to a registration procedure has already taken place with market participants and approved by the board of the URF board. It is likely to be signed by the Minister of Finance and the President in 2015.

129. Established foreign providers effectively enjoy national treatment in Colombia. Subsidiaries of foreign entities are treated in an identical manner as a local financial institution. Bearing in mind the

differences inherent to a branch, which is not a separate legal entity distinct from the principal company, but merely an office, banks' branches are also treated analogously.

130. For purposes of transparency, there are rules on branches of foreign banks. Banks' branches must meet capital requirements; their "assigned capital" must be converted into local currency and held in assets in Colombia. These capital requirements are equivalent to those applicable to locally incorporated banks. This requirement responds to branches' nature as a mere office that is not a separate legal entity distinct from the principal company. Also, whereas shareholders of locally incorporated companies have to pay at least 50% of capital at the time of subscription and may pay the remaining 50% within one year thereof, capital assigned to branches must be paid in full at the time of establishment of the branch or of the capital increase. This divergence results from the differences between the procedures required for stock issuance and subscription and for assigning additional capital for a branch. From a corporate perspective, it is not equivalent to making a call for capital in an enterprise, and to have the parent company increase its branch's "assigned capital," by issuing a check or wire-transferring the resources.

131. Colombia is an adherent to IOSCO's Multilateral Memorandum of Understanding on co-operation and exchange of information to facilitate cross-border enforcement cases.

132. The SFC has exchanged 24 MoUs with foreign supervisory authorities covering 98.4% of bank assets of foreign subsidiaries present in Colombia.

#### **Colombia's proposed reservations on CLCIO E items (as of October 2015)**

- E/1 Payment services.  
*Remark: The reservation applies only to the provision of payment services in Colombia.*
- E/2 Banking and investment services.  
*Remark: The reservation applies only to the provision of banking and investment services by non-residents in Colombia.*
- E/3 Settlement, clearing and custodial and depositary services.  
*Remark: The reservation applies only to the provision of custodial services by non-residents.*
- E/4 Asset management.  
*Remark: The reservation, does not apply to the provision of asset management services by non-residents if:*  
*i) the contractual relationship has been initiated at the client's initiative - in which the client shall not be contacted by a non-resident asset management undertaking or by a person, whether mandated by the undertaking or not, for the purpose of promoting or offering asset management services; and*  
*ii) the service is not linked to the mandatory general pension system (sistema general de pensiones).*
- E/5 Advisory and agency services.  
*Remark: The reservation, applies only to the provision by non-residents of risk rating services in Colombia.*

E/7

Conditions for establishment and operations of branches, agencies, etc. of non-resident investors in the banking and financial services sector.

Annex II to Annex A, paragraphs 1 and 4a

*Remark:*

- i) the reservation on paragraph 1 concerns the establishment of branches, which is only allowed for banking institutions;*
- ii) the reservation on paragraph 4 concerns the fact that the establishment of representative offices of non-resident financial institutions is subject to authorization.*

## **VII. Compliance with the OECD legal instruments on financial markets**

### **Recommendations of the Council on High-Level Principles on Financial Consumer Protection**

Colombia accepts this Recommendation.

### **Recommendation of the Council on a Policy Framework for Effective and Efficient Financial Regulation**

Colombia accepts this Recommendation.

### **Recommendation of the Council on Good Practices on Financial Education and Awareness Relating to Credit**

Colombia accepts this Recommendation.

### **Recommendation of the Council on Principles and Good Practices for Financial Education and Awareness**

Colombia accepts this Recommendation.

### **Recommendation of the Council concerning the Minimum Disclosure and Procedure Rules to be Complied with before Securities may be Offered to the Public**

Colombia accepts this Recommendation.

### **Recommendation of the Council concerning Regulations for the Public Offer and for Stock Exchange Listing or Quotation of Foreign Securities**

Colombia accepts this Recommendation.

### **Recommendation of the Council concerning Disclosure Requirements and Procedures to be Applicable to all Publicly Offered Securities**

Colombia accepts this Recommendation.

### **Recommendation of the Council concerning the Review of any Restrictions which Member Countries Impose on Portfolio Investment in Unlisted or Unquoted Securities**

Colombia accepts this Recommendation.

### **Recommendation of the Council concerning Standard Rules for the Operations of Institutions for Collective Investment in Securities**

Colombia accepts this Recommendation.

### **Recommendation of the Council on International Security Issues**

Colombia accepts this Recommendation.

## ANNEX I: OWNERSHIP OF MAJOR BANKS IN COLOMBIA

NAME OF THE ENTITY	SHAREHOLDER	NUMBER OF SHARES	TYPES OF SHARES	% OF OWNERSHIP
BANCOLOMBIA S.A. (Group Sindicato)	Obligatory Pension Fund PORVENIR	14,771,437	Preferred	1.73%
	Obligatory Pension Fund PORVENIR	37,166,239	Ordinary	4.36%
	Obligatory Pension Fund COLFONDOS	10,000,681	Preferred	1.17%
	Obligatory Pension Fund COLFONDOS	13,370,495	Ordinary	1.57%
	Obligatory Pension Fund PROTECCION	20,577,941	Ordinary	2.42%
	Obligatory Pension Fund PROTECCION	40,879,376	Preferred	4.80%
	Pension Fund HORIZONTE	14,546,322	Ordinary	1.71%
	Pension Fund HORIZONTE	16,117,306	Preferred	1.89%
	BIC ADR PROGRAM FIDUBIC	151,640,053	Preferred	17.80%
	SURAMERICANA DE INVERSIONES S.A. SURAME	224,490,467	Ordinary	26.35%
	LORANGE INDUSTRIAL CORPORATION	20,612,331	Ordinary	2.42%
	EMMERY EQUITY CORPORATION	24,387,619	Ordinary	2.86%
	CEMENTOS ARGOS S.A	19,717,510	Ordinary	2.31%
	GRUPO ARGOS S A	12,701,958	Ordinary	1.49%
	ESTREVALK LTDA.	9,249,313	Ordinary	1.09%
	Other Shareholders with less participation	108,713,563	Preferred	12.76%
	Other Shareholders with less participation	112,884,389	Ordinary	13.25%
	<b>Subtotal Preferred Share</b>	<b>342,122,416</b>	<b>Preferred</b>	<b>40.16%</b>
	<b>Subtotal Ordinary Share</b>	<b>509,704,584</b>	<b>Ordinary</b>	<b>59.84%</b>
	<b>Total Shares in Circulation</b>	<b>851,827,000</b>		<b>100.00%</b>
AVAL ACCIONES & VALORES S.A. GROUP (Group Aval)	MANUEL GUILLERMOJARA ALBARRACIN	458,866,120	Preferred	2.27%
	MANUEL GUILLERMOJARA ALBARRACIN	146,279,197	Ordinary	0.72%
	INES HELENA VELEZ TRUJILLO	73,562,309	Preferred	0.36%
	INES HELENA VELEZ TRUJILLO	18,625,735	Ordinary	0.09%
	SOSACOL S.A.	16,555,354	Preferred	0.08%
	Pension Fund PROTECCION-RF Short Term	30,311,595	Preferred	0.15%
	Obligatory Pension Fund COLFONDOS - MODERADO	14,452,569	Ordinary	0.07%
	Obligatory Pension Fund COLFONDOS - MODERADO	17,969,890	Preferred	0.09%
	Obligatory Pension Fund PROTECCION - MODERADO	35,608,219	Preferred	0.18%
	Obligatory Pension Fund PROTECCION - MODERADO	33,877,727	Ordinary	0.17%
	Obligatory Pension Fund HORIZONTE - MODERADO	28,066,911	Preferred	0.14%
	FDO FIDELITY INV.TRUST LATIN AMERICA FUND	4,519,256	Ordinary	0.02%
	EMPRESA DE ENERGA DEL PACIFICO SA. E.S.P.	19,683,065	Preferred	0.10%
	Obligatory Pension Fund SANDIA S.A.	7,426,450	Ordinary	0.04%
	FIDELITY INVEST.TRUST EMERG. MAR. FUND	14,681,180	Preferred	0.07%
	SHARES AND BUSINSS INC.	37,541,216	Ordinary	0.19%
	ADMINEGOCIOS & CA SCA	5,975,153,384	Ordinary	29.61%
	INVERPROGRESO S..	295,254,441	Ordinary	1.46%
	INVERPROGRESO S..	16,760,770	Preferred	0.08%
	INVERSEGOVIA S.A	403,605,252	Ordinary	2.00%
ACTIUNIDOS S.A.	687,451,726	Preferred	3.41%	
ACTIUNIDOS S.A.	2,993,627,373	Ordinary	14.84%	

	RENDIFIN S.A EN IQUIDACION	164,060,421	Preferred	0.81%
	RENDIFIN S.A EN IQUIDACION	601,122,169	Ordinary	2.98%
	NEGOCIOS Y BIENE S.A.S	278,007,490	Ordinary	1.38%
	Life Insurance SURAMERICANA S.A.	5,471,456	Ordinary	0.03%
	EL ZUQUE S.A.	958,153,905	Preferred	4.75%
	EL ZUQUE S.A.	547,683,322	Ordinary	2.71%
	SOCINEG S.A	683,851,342	Preferred	3.39%
	SOCINEG S.A	521,423,548	Ordinary	2.58%
	AMINVERSIONES S..	497,711,356	Preferred	2.47%
	AMINVERSIONES S..	622,225,833	Ordinary	3.08%
	INTRASSETS TRADIG S A	986,514,816	Ordinary	4.89%
	INVERSIONES ESCOIAL S.A.	1,264,557,393	Ordinary	6.27%
	VANGUARD EMERGIN MARKERTS STOCK NDEX FUND	30,972,068	Preferred	0.15%
	ISHARES MSCI EMEGING MARKETS INDX FUND	18,158,528	Preferred	0.09%
	NOGES BANCK	13,496,552	Preferred	0.07%
	Stock-Exchange Fund ISHARES COLCAP	52,274,516	Preferred	0.26%
	MULTIASSETS INVETMENTS S A PANAM	68,212,418	Preferred	0.34%
	MULTIASSETS INVETMENTS S A PANAM	10,249,964	Ordinary	0.05%
	Other Shareholders with less participation	410,870,243	Ordinary	2.04%
	Other Shareholders with less participation	1,113,390,236	Preferred	5.52%
	<b>Subtotal Preferred Share</b>	<b>4,999,798,481</b>	<b>Preferred</b>	<b>24.78%</b>
	<b>Subtotal Ordinary Share</b>	<b>15,178,488,834</b>	<b>Ordinary</b>	<b>75.22%</b>
	<b>Total Shares in Circulation</b>	<b>20,178,287,315</b>		<b>100.00%</b>
SURAMERICANA S.A. INVESTMENT GROUP (Group Sindicato)	Redundancy fund PROTECCION - Long Term	651,280	Preferred	0.1%
	Pension Fund PROTECCION-RF Short Term	3,554,456	Preferred	0.6%
	Obligatory Pension Fund PORVENIR - MODERADO	36,853,925	Ordinary	6.4%
	Obligatory Pension Fund COLFONDOS - MODERADO	16,190,211	Ordinary	2.8%
	Obligatory Pension Fund COLFONDOS - MODERADO	1,895,632	Preferred	0.3%
	Obligatory Pension Fund PROTECCION - MODERADO	16,771,133	Preferred	2.9%
	Obligatory Pension Fund PROTECCION - MODERADO	29,944,789	Ordinary	5.2%
	Obligatory Pension Fund HORIZONTE - MODERADO	2,374,577	Preferred	0.4%
	Obligatory Pension Fund HORIZONTE - MODERADO	20,554,575	Ordinary	3.6%
	FDO FIDELITY INV.TRUST LATIN AMERICA FUND	1,765,744	Ordinary	0.3%
	Obligatory Pension Fund SANDIA S.A.	6,847,390	Ordinary	1.2%
	CELSIA S.A. E.SP.	10,381,514	Ordinary	1.8%
	SUBFUND BARCLAY GLOBAL INVERTOR SERVUCES N.A.	737,390	Preferred	0.1%
	SUBFUND BARCLAY GLOBAL INVERTOR SERVUCES N.A.	1,806,990	Ordinary	0.3%
	ABU DHABI INVESTENT AUTHORITY	844,179	Preferred	0.1%
	ABU DHABI INVESTENT AUTHORITY	2,479,563	Ordinary	0.4%
	UBS AG LONDON BRNCH	7,066,710	Preferred	1.2%
	CEMENTOS ARGOS SA.	28,183,262	Ordinary	4.9%
	NUTRESA S.A. GROUP	59,387,803	Ordinary	10.3%
	ARGOS S.A. GROUP	136,998,942	Ordinary	23.8%
ARGOS S.A. GROUP	8,840,781	Preferred	1.5%	
COLOMBIANA DE COERCIO S.A.	9,451,033	Ordinary	1.6%	

	FRATERIDAD FOUNDATION MEDELLIN	5,070,000	Ordinary	0.9%
	SURAMEICANA FOUNDATION	1,100,000	Preferred	0.2%
	MORGAN STANLEY IVESTMENT FUNDS	922,400	Preferred	0.2%
	ESTREVALK LTDA.	4,227,011	Ordinary	0.7%
	CCA CON COMPARTIIENTO SERFINCO AC	1,720,358	Ordinary	0.3%
	STICHING DEPOSITRY APG EMERGING ARKETS EQUITY PO	2,324,645	Preferred	0.4%
	VANGUARD EMERGIN MARKERTS STOCK NDEX FUND	1,842,834	Preferred	0.3%
	VANGUARD EMEGIN MARKERTS STOCK NDEX FUND	4,202,867	Ordinary	0.7%
	FIDELITY FUNDS SCAV	4,720,760	Ordinary	0.8%
	ISHARES MSCI EMEGING MARKETS INDX FUND	834,389	Preferred	0.1%
	ISHARES MSCI EMEGING MARKETS INDX FUND	2,514,213	Ordinary	0.4%
	Obligatory Pension Fund PROTECCION MAYOR R	746,278	Preferred	0.1%
	Obligatory Pension Fund PROTECCION RETIRO P	652,454	Preferred	0.1%
	NOGES BANCK	1,037,231	Preferred	0.2%
	NOGES BANCK	1,995,849	Ordinary	0.3%
	Stock-Exchange Fund ISHARES COLCAP	10,259,312	Preferred	1.8%
	ISHARES MSCI EMEGING MARKETS MINMUM VOLATILITY	1,202,656	Preferred	0.2%
	DIMENSIONAL EMERING MARKETS VALU FUND	797,728	Preferred	0.1%
	Other Shareholders with less participation	41,878,898	Preferred	7.3%
	Other Shareholders with less participation	83,740,461	Ordinary	14.6%
	<b>Subtotal Preferred Share</b>	<b>106,334,963</b>	<b>Preferred</b>	<b>18.5%</b>
	<b>Subtotal Ordinary Share</b>	<b>469,037,260</b>	<b>Ordinary</b>	<b>81.5%</b>
	<b>Total Shares in Circulation</b>	<b>575,372,223</b>		<b>100.0%</b>
SOCIEDADES BOLIVAR S.A. (Group Bolivar)	CARDENAS ROJAS FERNANDO	966,013	Ordinary	1.22%
	BUSTAMANTE DE DUMIT EUGENIA	1,254,245	Ordinary	1.59%
	MC ALLISTER DE CORTES MARIA INES	1,279,794	Ordinary	1.62%
	CORTES MCALLISTER DANIEL	896,648	Ordinary	1.14%
	ELVINGERCOMERCIALTDA	2,223,983	Ordinary	2.82%
	ADEBOL	1,384,655	Ordinary	1.76%
	EXTERNADO COLOMBIA UNIVERSITY	20,907,389	Ordinary	26.50%
	JOTACORTES S.A.S	6,666,617	Ordinary	8.45%
	FUNDACION BOLIVARA VIVIENDA	4,492,255	Ordinary	5.69%
	ALBERTOCORTESE HJOS S.C.A	5,074,505	Ordinary	6.43%
	ACORTES S.A.S	1,731,275	Ordinary	2.19%
	CARTASU?A.S.A.S.	1,318,020	Ordinary	1.67%
	GCDT S.A.S INVESTMENT	2,259,789	Ordinary	2.86%
	PTC S.A.S INVESTMENT	1,815,200	Ordinary	2.30%
	JPTC SA.S. INVESTMENT	1,314,265	Ordinary	1.67%
	IAETC S.A.S. INVESTMENT	1,382,647	Ordinary	1.75%
	GTC S.A.S. INVESTMENT	1,073,651	Ordinary	1.36%
	CTC S.A.S. INVESTMENT	1,568,861	Ordinary	1.99%
	AMTC S.A.S. INVESTMENT	1,317,062	Ordinary	1.67%
	ATARDECERB.V	3,563,228	Ordinary	4.52%
	Other Shareholders with less participation	16,395,309	Ordinary	20.78%
		<b>Total Shares in Circulation</b>	<b>78,885,411</b>	<b>Ordinary</b>
BILBAO VIZCAYA ARGENTARIA BANK COLOMBIA S.A. BBVA COLOMBIA (Group BBVA)	BANCO BILBAO VIZCAYA ARGENTARIA	196,857,652	Preferred	1.4%
	BANCO BILBAO VIZCAYA ARGENTARIA	10,766,099,008	Ordinary	74.8%
	BBV AMERICA SL	256,150,000	Preferred	1.8%
	BBV AMERICA SL	2,511,124,962	Ordinary	17.5%
	Other Shareholders with less participation	26,752,348	Preferred	0.2%

	Other Shareholders with less participation	630,705,101	Ordinary	4.4%
	<b>Subtotal Preferred Share</b>	<b>479,760,000</b>	<b>Preferred</b>	<b>3.3%</b>
	<b>Subtotal Ordinary Share</b>	<b>13,907,929,071</b>	<b>Ordinary</b>	<b>96.7%</b>
	<b>Total Shares in Circulation</b>	<b>14,387,689,071</b>		<b>100.0%</b>
CITIBANK - COLOMBIA S.A. (Group Citi)	CITIBANK OVERSEAS INVESTMENT CORPORATIO	49,888,681	Ordinary	90.0%
	YONDER INVESTMENT CORPORATION	5,543,192	Ordinary	10.0%
	Other Shareholders with less participation	47	Ordinary	0.0%
	<b>Total Shares in Circulation</b>	<b>55,431,920</b>	<b>Ordinary</b>	<b>100.0%</b>
CORPBANCA BANK COLOMBIA S.A. (Group Santander)	TIMON S.A.S INVESTMENT	50,958,825	Ordinary	6.8%
	COMERCIAL CAMACHO GOMEZ S A S	52,615,595	Ordinary	7.0%
	CARRON S.A.S INVESTMENT	43,147,272	Ordinary	5.7%
	CG FINANCIAL COLOMBIA S A S	62,520,726	Ordinary	8.3%
	KRESGE0STOCK HOLDING COMPANY INC	10,439,451	Ordinary	1.4%
	CORPGROUP INTERHOLD LIMITAD INVESTMENT	30,785,838	Ordinary	4.1%
	BANCO CORPBANCA S A	500,275,451	Ordinary	66.4%
	Other Shareholders with less participation	2,823,271	Ordinary	0.4%
	<b>Total Shares in Circulation</b>	<b>753,566,429</b>	<b>Ordinary</b>	<b>100.0%</b>
GNB SUDAMERIS BANK	GLENOAKS INVESTMENT	8,231,000	Ordinary	5.0%
	GILEX HOLDING B V .	156,338,046	Ordinary	94.7%
	Other Shareholders with less participation	468,188	Ordinary	0.3%
	<b>Total Shares in Circulation</b>	<b>165,037,234</b>	<b>Ordinary</b>	<b>100.0%</b>
CAJA SOCIAL BA	PROMOTORA DE INVERSIONES Y COBRANZAS SA	41,990,897	Ordinary	20.5%
	COLMENA RIESGOS PROFESIONALES	2,295,738	Ordinary	1.1%
	CORPORACION FINANCIERA INTERNACIONAL	19,460,930	Ordinary	9.5%
	PROJUVENTUD FOUNDATION	10,696,756	Ordinary	5.2%
	SOCIAL FOUNDATION	88,646,676	Ordinary	43.3%
	COLMENA FOUNDATION	2,944,148	Ordinary	1.4%
	JP MORGAN INTERNACIONAL FINANCE SL	38,571,504	Ordinary	18.8%
	Other Shareholders with less participation	71,011	Ordinary	0.0%
	<b>Total Shares in Circulation</b>	<b>204,677,660</b>	<b>Ordinary</b>	<b>100.0%</b>
COLPATRIA MULTIBANCA COLPATRIA BANK S.A. (SCOTIA GROUP)	MERCANTIL COLPATRIA S.A.	12,444,317,846	Ordinary	34.3%
	MULTIACCIONES .	8,270,946,460	Ordinary	22.8%
	ACCIONES Y VALORES COLPATRIA S.A.	682,960,440	Ordinary	1.9%
	TRIVITA HOLDINGS INC .	3,799,860,911	Ordinary	10.5%
	MAYARO LTD .	2,942,694,695	Ordinary	8.1%
	INTERNATIONAL YORKSHIRE LIMITED .	3,034,976,846	Ordinary	8.4%
	VINCE BUSINESS CORP. .	3,178,180,170	Ordinary	8.8%
	Other Shareholders with less participation	1,907,393,280	Ordinary	5.3%
	<b>Total Shares in Circulation</b>	<b>36,261,330,648</b>	<b>Ordinary</b>	<b>100.0%</b>

## ANNEX II: FSAP KEY RECOMMENDATIONS (2013)

Recommendations	Institution/s	Priority	Horizon
<b>Independence of SFC</b>			
Include the requirement to appoint the superintendent for a fixed term or to require a public explanation of the reasons for dismissal.	MHCP	High	ST
<b>Legal Protection</b>			
Amend legal framework to clarify that liability for failure to perform the regulatory mandate in good faith should be defined as equivalent to acting in bad faith; and that the judicial authorities can limit circumstances in which private parties can sue.	MHCP	Medium	MT
<b>Holding Companies of Financial Conglomerates</b>			
Approve law that gives SFC supervisory and regulatory powers over the holding company of a financial conglomerate.	MHCP	High	MT
<b>Adoption of International Financial Reporting Standards</b>			
Continue implementation of IFRS	SFC	Medium	MT
<b>Standards for External Auditors</b>			
Publish timetable to comply with international auditing standards.	SFC	Medium	MT
<b>Bank Regulation</b>			
Adopt Basel II, Pillar 2 supervisory framework.	MHCP	High	MT
Introduce specifications for comprehensive risk management of banks and banking groups.	SFC	High	MT
Formulate guidelines to undertake ICAAP reviews both at individual bank and conglomerate level.	SFC	High	MT
Simplify large exposure limits by reducing number of separate limits as well as the range of exceptions to help manage concentration risk.	SFC	High	MT
Ensure that limit on related-party lending cover all such exposures.	SFC	High	MT
<b>Securities Regulation</b>			
Require earlier notification of public meetings and extraordinary actions to improve protections for minority shareholders	SFC	Medium	ST
Tighten oversight of broker dealers and other collective investment schemes.	SFC	Medium	MT
<b>Bank Resolution Framework</b>			
Reform legal framework to shorten period of possession and limit reliance on options inconsistent with accepted resolution principles	MHCP, SFC	Medium	MT
<b>Macroprudential Policy</b>			
Adopt more formal structure of CCSSF through adoption of action plan to manage a systemic crisis.	MHCP, SFC and BR	Medium	MT
<b>Money Markets</b>			
Phase out the financial transaction tax faster than currently planned	MHCP	Medium	MT
Expand issuance of short-term government securities	MHCP	Medium	MT
Narrow range of counterparties in open market operations	BR	Medium	MT
<b>Liquidity Management</b>			
Tighten liquidity standards for broker-dealers and other NBFIs	MHCP	High	MT
Adopt more rigorous stress testing of broker-dealers and other NBFIs.	MHCP	High	MT

### ANNEX III: FSAP: ASSESSMENT OF BASEL CORE PRINCIPLES (2013)

Reference Principle	Recommended Action
1.2 Independence, accountability and transparency	Amend law to establish procedure for the appointment and removal (with disclosure of reasons) of Superintendent.
1.3 Legal framework	Amend the URF framework to strengthen its independence, ensure that the SFC maintains a key role in the regulatory process and find a better balance between regulation of MoF and Instructions issued by SFC
1.5 Legal protection	Amend law to grant legal protection to supervisors
6. Capital adequacy (outgoing regime)	New regime corrects most of the shortcomings of old regime.
7. Risk management process	Issue instructions and implement comprehensive risk management framework
9. Problem assets, provisions, and reserves	Strengthen regulation for restructured loans. Require banks to classify all exposures.
10. Large exposure limits	Eliminate various exceptions; broaden scope to include all affiliates; ensure the proper application of interconnected parties; ensure that approved facility lines are taken into account when calculating limits; streamline the regulation.
11. Exposure to related parties	Clarify the regulation so limits are applied to all exposures to related parties; broaden the scope; enhance oversight.
12. Country and transfer risks	Issue framework and design oversight process.
13. Market risks	Effectively oversight of proper implementation of the SARM.
14. Liquidity risk	Effectively oversight proper implementation of the SARL.
15. Operational risk	Broaden the scope of oversight beyond IT.
16. Interest rate risk in the banking book	Issue framework and design oversight process.
17. Internal control and audit	Develop framework for overall assessment.
18. Abuse of financial services	Effectively oversight proper implementation.
19. Supervisory approach	Implement intended changes ensuring the establishment of relationship managers for banks.
20. Supervisory techniques	Revamp reports moving toward a more risk-based approach.
21. Supervisory reporting	Ensure information is gathered on a consolidated basis.
22. Accounting and disclosure	Implementation of IFRS and international auditing standards, including a higher standard for the independence of external auditors.
24. Consolidated supervision	Issue regulation to broaden scope of consolidated supervision and enhance powers of SFC