Going Public in Latin America

It has long been recognized that the developing economies of the Latin American countries require not only significant amounts of capital investment through foreign aid programs and international lending institutions but also large amounts of private capital. To the extent that local savings can be tapped and channelled into productive projects the formation of capital will be intensified. Some of the problems encountered by foreign investors who have sought to sell securities publicly in Latin America, and techniques for solving them, were discussed at a recent seminar at the Cênter for Inter-American Relations in New York, a résumé of which follows. The moderator was Frank Nattier, and the speakers were Marvin S. Fink, Vice President of Ebasco Industries, Inc., Henry H. Patton, a director of Deltec Securities Cooporation, and Norman S. Poser, Vice President of the American Stock Exchange.

MR. NATTIER:

During the past several months two principal developments in Latin America have focussed attention on the capital markets in that area. The earlier of these consisted of indications of a growing feeling in Latin America that local capital and entrepreneurs should have a participation in industrial development, and particularly in those projects which are linked with economic integration. The indications were strongest in Mexico, but they have been seen to a greater or lesser extent in all the countries, as well as in such international bodies such as LAFTA, the Central American Common Market, the Andean Group and the Inter-American Committee for the Alliance for Progress, CIAP.

Also, the Foreign Direct Investment Regulations of the United States provided a strong impetus to many companies to seek sources for at least part of their capital requirements in Latin America.

There have been other developments, too, and one among them should not be overlooked; namely, the steps which have been taken by several countries to develop their capital markets, provide the mechanisms, furnish inducements for savings and capital formation and related measures.

For these reasons, I know all of us applaud the initiative taken by the Committee on Latin American Law in setting up this discussion. I am certain it will be of interest and benefit to all of us.

We have an outstanding panel today. I suspect that a large percentage of the total experience in the United States on the subject we are discussing, is sitting on my right and my left at this moment. It is going to be a privilege, I know, for all of us to listen to them.

I would like to give you quickly our plan of procedure. First, we are going to hear a discussion of the considerations that enter into a decision on the part of management to seek equity capital in Latin America. Next will be a consideration of the kinds of securities that are available and a look at some actual securities issues. And finally, a discussion of the regulatory aspects. All of this will come from people who have first-hand experience and thorough knowledge.

Our first speaker is Mr. Marvin S. Fink who is Vice President of Ebasco Industries Inc., a graduate of Clark University and Harvard Law School. He has had extensive participation in negotiations related to investments in a number of Latin American countries. He will talk to us, among other things, about some of the factors that enter into management's decision to go into the Latin American capital market.

MR. FINK:

I would like to touch upon some of the experiences we have had in financing in Latin America and some of the problems with which we have been confronted in this problem of raising capital on two planes: first, as a utility company operating in Latin America—facing the problems of inflation and its deterrent effects on the ability to raise capital locally, except in those countries where there was a hard currency; and especially the inability to raise the debt capital essential for utilities operation in an inflationary climate. Then the other part of our experience, the making of equity and other investments in certain countries where we had disposed of our utility properties and had embarked upon new ventures together with other American industrial corporations and local capital; and then the sale of stock to the public in these new ventures, which were started without public participation, after they had developed an earnings base and had gone through the start-up experience.

I think that the first question that is presented is, is it desirable to go public? If you are organizing a new company in Latin America, and this would be true of most countries, would you want to bring the public into the picture where you may have a three-year construction program and a two-year period of financial sterility; where you can't pay dividends; where it takes perhaps five years to get the enterprise really operating on a going basis. Do you want to attract a large number of public investors who will be disturbed by the lack of a return on their investment during the start-up period and hence shy away from other capital formations? When capital markets are sufficiently developed to the point where investors are sophisticated and realize that investments made at the beginning of a venture may be productive many years later and the return may be much greater and are willing to take their chances, then you may seek public financing in the developmental period as in countries with highly developed capital markets. I don't believe that situation exists to any great extent in the Latin American countries. The result then is that if you are forming a new corporation and you want to meet the objective of having local capital participation, you will generally seek to have knowledgeable partners in the local country with the intention that later on, either you or they or both of you, will sell shares to the public when the enterprise has matured. Among the advantages of having knowledgeable local investors in the initial stages are that they go into the venture understanding that they will not receive dividends initially; that they contribute managerial talent; and that you have a pool of financial resources, since practically every venture you start costs more than you anticipated at the beginning and you have to go to the well more than once in order to raise the necessary capital.

Another reason for raising local capital privately, in addition to those mentioned, is that it may be necessary to have local partners to meet the standards of the host country, either imposed by legislation or by practice, requiring either a majority or substantial local ownership of the enterprise. Such a requirement is not an idle one because the granting of tax relief available in many countries for new and developing industry depends upon local capital participation and not only would tax relief be unavailable without local capital participation, but the obtaining of the necessary governmental authorizations, licenses and so forth essential to the business could be made more difficult.

With that rather long-winded introduction, it may be worth looking at two ventures that we went into in Mexico where we were required to reinvest some $63,000,000 out of a purchase price of $68,000,000 paid to us by the Mexican government on the sale of our utility properties in that country. This money was to be paid to us over a period of 15 years with interest of 6½%, and all payments have been made as scheduled. We agreed that we would reinvest this amount as received in other businesses in Mexico. In that way, there would not be disinvestment of Mexican capital and, on our part, we would have other investments which we believed would be, and which have proven, more profitable than the utility business had been in Mexico.

The first venture in which we became engaged was made together with a major American industrial company and a Mexican financial group. The project involved the construction of a plant in Mexico costing about $16.8 million. The operation came under the Mining Law which requires 51% Mexican control. The financing was arranged, $6.5 million from Eximbank, $3.8 million from us in debentures junior to the Export-Import Bank, $3.8 million of preferred stock which the American company took jointly with the Mexican partners, and $3 million in common stock divided 51% Mexican, 35% for the American company and 14% to us. The plant took about a year and a half to build and another year and a half before it was on a dividend paying basis. Early in the operation, the Mexican financial group, who weren't really interested in holding the preferred stock, sold that stock to the Mexican public together with a portion of the common stock. The preferred stock was a rather unique instrument. It was a peso preferred with a fixed dividend and a participating dividend but stabilized to the dollar so as to protect against possible devaluation of the peso. I am happy to say that not only has there been no devaluation, but that, in fact, over the past five years, the Mexican peso has had one of the strongest records of any currency. In case of the devaluation of the peso, both the dividend rate, the redemption price and the liquidating price would be adjusted so that the investors would have returned to them the equivalent of the amounts invested in dollars. This was because the American industrial company did not wish to take a peso preferred stock which at that time appeared hazardous.

We sold our common stock to the American company later on. It cost us 100 pesos a share, we sold the stock at something like 450 pesos a share which was approximately the price prevailing on the Mexican stock exchange at the time. It has been an interesting investment to the Mexican public. It probably would not have been attractive to them had they gone in initially and had to wait three years to see any return.

A second situation into which we entered together with a different American industrial company was one where we each took, the American company, our company and a group of Mexican investors, one-third of the common stock. In this particular company, the Ministry of Industry and Commerce insisted that in order to obtain the tax relief available that there would have to be 60% Mexican ownership. In order to meet this provision, the government agreed to a disposal program on the part of the two American companies whereby over a period of time we would sell a part of the stock to Mexican investors, which we did and which we are still doing. We started to sell our stock to the public in accordance with our commitment after the company was on an earnings basis.

One of the ways in which Mexicanization or national ownership of a developing industry is obtained is by having two classes of common stock, Class A and Class B. One class is available only to Mexican investors and the other class is available to Mexican or foreign investors. Not only is the purchase by a foreign investor of the Mexican stock illegal, but this holding of such stock is of no legal force.

One other aspect of these transactions, and this goes to the matter of achieving local ownership in a new industrial situation, is, as I mentioned, the junior debentures that we took in this first situation. One of the problems of properly financing a new enterprise and obtaining local ownership is the amount of equity required to have a proper capital structure in the light of the limited amount of local funds available. Therefore, in order to achieve the objective of Mexican ownership and to obtain the necessary financing, it is necessary to some degree to mongrelize the capital structure. While this increased the debt ratio beyond that deemed desirable by financial purists, the junior debentures became an effective vehicle for furthering Mexican ownership in that as the debentures have been repaid, the equity value and hence the amount of local ownership has increased.

These are only a few examples of investment situations which have proved successful. The interplay of financial and legal factors—as well as the less tangible but not less real psychological aspects of the local investing community—present extremely interesting problems. I think it is fair to say that, while the conditions existing in the Latin American countries are vastly different from those in the infinitely larger and more sophisticated U.S. financial markets—for example, consider the question of creating convertible securities or option warrants under a legal regime that does not recognize authorized but unissued capital stock,—with ingenuity these difficulties can be met and met with results that are gratifying for all concerned.

MR. NATTIER:

Our second speaker is Mr. Henry Patton, who is Vice President of Deltec Pan Americana, and a director of Deltec Securities Corporation. Mr. Patton has had long experience in the securities field, particularly having to do with Latin America. He has lived in Latin America, and is familiar with many aspects of the way these things are done; the possibilities; and the various methods that are available, which he will discuss with us.

MR. PATTON:

I should like to start off by telling you that in January of 1966, we were commissioned by the Inter-American Development Bank to make studies of capital markets in Argentina, Brazil, Perù and Venezuela, and we undertook this gladly because it gave us a chance to assemble our thoughts, to present to the Bank our ideas on what the markets consisted of, what was wrong with them, and how they could be improved. We hoped that this might have some influence on the thinking of the governments in the various countries. We delivered these about a year later after considerable sweat and they have now been published. I should say that there were two others that were done by Professor Bach, up-dated versions of earlier studies he had made on Colombia and México. I believe they have been published too. Those are available through the Bank or through the publishers in México. They contain just about everything that we know and about everything we think that should be done.

We (Deltec) are in seven countries in Latin America—Argentina, Brazil, Chile, Colombia, Perù, México and Venezuela. To begin with, there are only certain of those countries in which any foreign or any domestic company can go public. It is simply impossible in some of them. One can in Argentina and Brazil, México certainly, and, to an extent, Venezuela. It is literally impossible in the other countries where we have an office—Chile, Colombia and Perù. The reason is that there simply isn't any market for securities. You cannot sell them where there is no market, and I mean no old market or new market or embryonic market. I should take that back in Chile. At one point there was, but I would say in the last five or seven years or so it has been pretty well killed. The reason for that is the galloping inflation and an attitude on the part of the government towards capitalism as we know it. Where it can be done, it can only be done in a limited way. One shouldn't confuse what can be done here or in many countries in Europe. It is just on a different scale.

Venezuela

To cover the least of the markets first, Venezuela. It is not possible to sell equity in Venezuela at this time. You can sell with relative ease three, four, or five hundred thousand or maybe a million to believers in debt securities. One reason is the state of the currency. They have no inflation and there is confidence in fixed income securities. The equity market blossomed briefly, I believe it was in the early 60's, but unfortunately they had all kinds of excesses and the market collapsed. It all left a bad taste and they have just never gotten over it. There is another peculiar difficulty in Venezuela which does not exist in any other country. Two stock exchanges grew up in this embryonic capital market, one in Caracas and one in Miranda, actually the same place. They compete with each other and they cut each other's throat successfully so that the brokerage fraternity slowly starves to death there, and what little vitality the securities markets have there they manage to diminish. It should come back, and it is somewhat of a puzzle to us as to why it doesn't. There is plenty of money available. Business by and large, as you all know, is very successful there so the failure of a good securities market to develop is somewhat of a mystery.

México

México is at the other extreme, and of course it is the outstanding garden spot for securities, both equities and debt in all of Latin America. As Marvin Fink said, they have had a stable currency for at least 15 years. The year 1954 was the date of the last devaluation and before that going many years back they had a flourishing economy. They have a good stock exchange. And I would say today that there are several investment banking firms to whom you could go to raise securities there. They happen to be commercial banks, one of them is Banco Comercial and the other is Banco Nacional, and then ourselves, and I think there are two or three or four stockbrokerage firms that are doing a good job. That is a lot in Latin America.

Incidentally, I should say at this point that Deltec would be delighted to welcome two or three or twenty-two good solid securities firms anywhere. We would welcome the competition. Where we are the only securities company it is a pretty good indicator that there isn't very much business to go around. It also is uncomfortable to be conspicuous and we all know you just cannot do this job of developing a capital market all by yourself.

Argentina

Argentina has a mature stock exchange, one of the best. The mechanism there is excellent. There are several dozen stockbrokers there; I won't differentiate between the stockbroker and investment banker. They can be quite different although they overlap. There are in Argentina, I would say, three banking firms as we know them, Tornquist, Roberts & Co., Holt Ruffin & Co. and ourselves, and then there are one or two dozen stock-brokers with considerable financial knowlege. The market there was killed in the days of Perón and it has taken a long time before it could come back. Today, in theory, you could go public in Argentina. In practice, I don't know how you could because the blue chip stocks on the Buenos Aires Stock Exchange are selling anywhere from a third to a tenth of their book value, anywhere from two to eight times earnings and I really don't know how a new company or even an existing company can profitably finance publicly since you have to issue some securities in competition with what already exists.

The Argentine market has been in the doldrums for years but in the last few months it has shown signs of renewed vitality. There has been a considerable amount of foreign capital going into the market down there, which is typical of a resurgence of foreign confidence in advance of the local people who are still in a state of financial shock. But at some point if the market continues to improve, it will bring back confidence, and the time will come, I hope and think not too far off, when it will be possible to finance publicly on terms and a scale comparable to earlier days.

The Argentine government has sold two bond issues recently which were very successful and actually greatly over-subscribed. I think they yield about 11% which is fair in terms of the domestic economy, domestic interest rates and the reduced rate of inflation.

Brazil

Brazil is the country where we have been the longest, since 1948, where our fortunes have gone up and down with the state of the capital market and at some points in the past it has been really remarkable. Henry Balgooyen here and Marvin Fink, who have done a lot with American & Foreign Power there, sold a lot of securities, and I mean a lot, in the millions, on a very large and good basis. The public's experience has been good with fairly priced public utility preferred shares and in addition to that a great many industrial issues have been placed. We have made a lot of studies on this, and looking back during the period of galloping inflation in Brazil in the last 12 to 15 years, people have just about beaten inflation by investing in a cross-section of common stocks in Brazil. That is a pretty good record. Nothing else except good real estate could possibly equal that performance. During the Goulart time, of course, this went absolutely flat. For example, at the height of our activity there we had a sales force of more than 400 people and in 1962 we were down to a total work force in our entire company of 15 people, and we were about ready to take our shingle down. Luckily we didn't, and we are gradually building back up again, and so it goes with the stock market itself. There are good stock exchanges there, one in Rio, one in Sao Paulo. Brazil has a new capital market law which is excellent and there has been a resurgence of activity. I wish every country in Latin America would get a copy of it and produce something like it, tailored to their own needs. Throughout the inflation, a great many securities dealers continued to deal in *letras de cambio,* maybe 200 of them, and many of them were very capable financially. They are moving back into the securities business. In addition there are the investment banks there which are a somewhat different breed of cat. The Citibank has one and we have one. I guess there are half a dozen very competent ones, quite capable of bringing the company to the public.

Now I would like to endorse what Marvin Fink said with respect to a new enterprise going public in Latin America. I really don't care who it is. Whether it is Ebasco or a brand new company or General Motors, there is a period that every company goes through when it costs at least something more than was ever expected to get into production. It usually takes more time than the gloomiest forecast. In addition, there often are growing pains so there is a sterile period. Believe me, this experience has been repeated over and over again. The big corporations are accustomed to this. They live through it, they sweat, they don't like it, they have to go back to Detroit and confess what has happened and get some more money and we have all been through this—I see several of you grinning—and if you can take it and you have the sophistication to realize this has happened before in other places, it is all very well. But, if you go to the public, no matter how many times you tell them all these facts and how careful you are to point out what the pitfalls may be and the waiting period may be, they never really believe it. So when the inevitable happens, you have a lot of disappointed stockholders and this is about the worst thing that could happen to any foreign company going into Latin America or anywhere else.

Deltec, as a rule, will not finance publicly any new enterprise in Latin America. Now please understand that's publicly. We will be glad to join with anybody in setting up the plans for a new program and getting a few other partners, sophisticated people or small groups and so forth, but to talk about going out and selling stock publicly, I don't think we would do it for a new enterprise. Now there is one outstanding exception to that which we did with Industrias Kaiser in Brazil. Starting from zero we went out and sold stock to a total of 40,000 stockholders in every hamlet in Brazil, and it has worked out extremely well, and they have been, I think, very happy stockholders. Most of them have their original stock that they bought in 1956. So that is a long record and it is a good record. The Kaiser stock has gone up and down, paid dividends and they have had good years and some mediocre years. But on the whole this particular operation did work out extremely well. I happened to say to Clarence Dauphinot this morning "do you think we can do that again?" and he said "well, if I were 15 years younger, we would do it again, but today I don't know." In the case of the Kaiser financing we were accused of being snake oil salesmen; we had a bunch of jeeps painted orange and yellow. We went out and put lights on them, had a guy playing a trombone over the tail gate and we really made an old fashioned sales pitch. Well it worked but I really don't think we want to do that again; I really would not recommend it even on a modest scale.

MR. NATTIER:

We will now assume that the decisions have been made first to offer shares to the public, and then as to the kind of securities to use. At an early stage, and all through the operation, the company must contend with the regulatory authorities of the country in which they are operating. Our next speaker is highly familiar with this area of the subject. Mr. Norman Poser is now Vice President of the American Stock Exchange, and was formerly with the S.E.C. A short while ago he spent six months in Brazil, working as a consultant to the Central Bank in connection with the new capital market law to which Henry Patton referred. He has written an article on that law which is one of the best available in English. It is a great pleasure to have Norman with us and I am sure we are going to be very much interested in what he has to say.

MR. POSER:

I would like to tell you something about the Brazilian effort to regulate its securities markets, which began about four years ago and is still in the process of development.

The underlying reasons for regulating the markets in Brazil were quite different from those which led to the new deal legislation in this country during the 1930's. Our securities regulation was designed to protect the investors and to avoid repetition of the economic disasters which, in part, had resulted from market excesses. The Brazilian government, on the other hand, is using securities regulation as a means of fostering the development of the country's capital markets and in that way of the economy generally.

Protection of investors is an important part of this program, since the public is unlikely to be willing to put its savings into equity or long-term securities unless it has confidence that the markets are honest and unless information is available concerning the operations and finances of the issuers of securities.

In addition, the Brazilian government is aiding the securities market of that country in other ways. First it has granted certain tax advantages to companies which go public and to their stockholders. I will say a few words about that in a few minutes. It has also authorized government subsidies to enable stock exchanges to change their method of trading from the old-fashioned call method on which stocks are called out in order once or twice every trading session. That was based on the method used in the Paris Bourse in the 1890's, which has since been changed in Paris but until recently wasn't changed in Rio or Sao Paulo, to a continuous auction market similar to that which we have on our major stock exchanges in this country.

Secondly, Brazil has authorized the creation of certain new institutions, such as private investment and development banks, which were mentioned earlier, which may be effective in strengthening the capital markets; and it has removed certain legal restraints on certain activities and institutions. For example, until recently membership in the Rio and Sao Paulo stock exchanges was limited by statute to 50 brokers who had an express right by statute to hand down their exclusive franchise to engage in securities and foreign currency dealings to their sons or their sons-in-law. Another example of the elimination of restrictions which hampered the growth of the markets is the provision which for the first time permits Brazilian corporations to have authorized but unissued capital. Previously this prohibition prevented companies from issuing convertible securities.

The Brazilian capital markets law, Law 4728, was adopted in July, 1965. The capital markets law contains provisions similar to those of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Company Act of 1940 in this country, as well as various tax, corporate, and other provisions. It bears some very definite signs of influence of the United States pattern of securities regulation. For example, the capital markets law does not establish precise standards of behavior but leaves this to a regulatory agency. Until recently, that was a very unusual situation in the world, although European countries are beginning to introduce the kind of administrative agency that we have in this country. The

National Monetary Council in Brazil, which is composed of nine opposing officials including the Minister of Finance and the President of the Central Bank, was authorized to establish rules in a number of areas including the operation and organization of stock exchanges and broker-dealers, the type of disclosure which companies are required to make (both on a periodic basis and when they issue securities to the public), the operations of private development banks, and the conditions under which public companies and their stockholders can receive favored tax treatment. These rules are administered by the Central Bank, which has established a special office, the Office of Capital Markets, to fulfill this responsibility. Since the National Monetary Council has no staff of its own, in practice the staff of the Central Bank is also expected to prepare regulations and to submit them for approval to the National Monetary Council.

The shortage of qualified staff members in Brazil has been a problem at this office since its inception. When I was in Brazil in 1966, I worked on drafting of regulations with an informal group of two or three persons, none of whom had any official connection with the government, because there just wasn't anyone to work with at the Central Bank. This problem may have already been reduced through the various programs which have been in operation in this country and in Brazil for the training of officials and investment people, who go back to Brazil to take up their duties.

Since the capital markets law covers so much ground, I will only mention a few of its provisions which may be of particular interest to you.

In October, 1966, the National Monetary Council adopted Resolution No. 39, which deals with stock exchanges and their members. I think that, as a practical matter, by far the most important provision of this regulation is that it opens up membership in the stock exchanges to any qualified firm. I understand that the Rio exchange now has more than 200 members. The major part of the business of many of these is selling bills of exchange. While they are continuing to sell commercial paper and short term debt, the fact that they now have access to the stock exchanges and can now deal in securities on an organized exchange must be a factor, and I am sure will be a factor, in the development of the stock markets in Brazil.

Articles 20 and 21 of the Capital Markets Law require registration of the companies whose securities are traded on a stock exchange or which issue securities to the public. Resolution No. 88, adopted February 1, 1968, requires the filing of certain specified information and also requires that such companies have adequate services for their stockholders' transfer of stock and payment of dividends and so on. The disclosure requirements are generally far less stringent than those of the SEC in this country. The problem of getting adequate corporate information is further complicated by the staff problem I spoke of before. I do not think it is possible to predict whether these new regulations will be successful in overcoming the traditional habits of secrecy of Brazilian industrialists. However, I do not think that it is possible to have real public equity markets unless there is adequate disclosure of corporate information. It seems to me that disclosure is not just one fact among many; it is the name of the game. Unless people know what the company is doing, they are not going to invest, except on a very small scale.

The final area of the Federal Markets Law which I want to mention is the so-called open capital provisions. Articles 55 and 56 of the Law provide that stockholders of companies with "open capital" will receive more favorable tax treatment on the dividends which they receive than will stockholders of other companies. The term "open capital" is left to the National Monetary Council to define. The purposes of these provisions is to encourage wider share ownership and liquid securities markets. Thus the definition, as originally promulgated in Resolution No. 16 (February 8, 1966), required a company with open capital both to have a broad distribution of its shares and a minimum amount of trading in its stock on a stock exchange. The first part of that definition does not seem to raise any problems. But the requirement that there must be a certain amount of trading seems to give corporate management an incentive to engage in "wash" sales of their own corporation stock just to reach the required level of activity. In addition, this kind of a rule penalizes companies located in the northeast of Brazil and other areas in which active stock exchanges do not exist.

The National Monetary Council has recently taken steps to correct this situation. Resolution No. 106, adopted on December 10, 1968, has redefined open capital. This regulation is important, I think, to any company which intends to go public in Brazil. First of all, the company with open capital is required to have a minimum number of shareholders owning at least 20% of the outstanding stock. The number of shareholders depends upon the amount of the capital of the company and the location of its principal office. For example, a company with capital of more than 1 million new cruzeiros, that is I think maybe half a million dollars or less—$250,000—, which is located in Sao Paulo or Rio is required to have at least 500 shareholders, none of whom owns fewer than 100 shares. If a company of that size is located in Salvador, Recife, Porto Alegre or Belo Horizonte, the medium-sized cities, the requirement is reducd to 350 shareholders. If the company is located in outlying regions, and there are not too many public companies in those regions, the requirement is only 250 shareholders, each of whom need have only 75 shares instead of 100. Investment firms may be counted as more than one shareholder according to a set formula.

In addition to these distribution requirements, a company with open capital must have shares registered for trading on one or more stock exchanges and, furthermore, the shares must be fully negotiable and certain rules regarding the payments of dividends and filing of information with the Central Bank must be complied with. Happily, in my opinion, the requirement that a minimum amount of trading take place has been eliminated.

That is a very brief description of some of the highlights of the Brazilian effort to impose regulation, in some ways similar to that of the United States, upon its securities markets. I think that borrowing the laws of another country always poses some problems. It is clear to me that the full panoply of SEC regulation is not well suited to a developing country such as Brazil. For one thing bureaucratic proliferation may inhibit, rather than stimulate, economic growth and it may deter persons who wish to go public from doing so.

Yet there is evidence that the Brazilian middle class has substantial savings that it would be willing to invest in local industries rather than in Swiss banks if it had some real assurance that it would receive a fair shake. During the expansive era of the 1950's which Mr. Patton referred to, many Brazilian companies, some of them subsidiaries of U.S. corporations went public in Brazil. I understand that the episode in some ways left something of a sour taste, particularly because there weren't good trading markets available where the stockholders could sell their shares later when they wanted to. Lack of corporate disclosure and overreaching by brokers also were factors leading to disillusion among investors.

If Brazil enters a new era of economic expansion in the 1970's, the groundwork which has been laid to adapt U.S. concepts in securities regulation to Brazilian needs will turn out to have been extremely valuable.