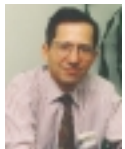


A CLOSER LOOK AT ARGENTINA



THIS YEAR'S TREASURER'S HANDBOOK CONTAINS A MINE OF TREASURY-RELATED INFORMATION ABOUT MORE THAN 40 JURISDICTIONS. **CLAUDIO MIGLIORE** PROVIDES THE LOWDOWN ON ARGENTINA.

This country guide provides a brief summary of some of the key regulatory, banking and cash management aspects which treasurers need to consider when undertaking commercial activities in Argentina.

FINANCIAL REGULATORY FRAMEWORK

The central bank, Banco Central de la República Argentina (BCRA), is charged with the regulation, inspection and supervision of all financial institutions. At the same time, it is responsible for controlling money supply and monetary stability. As part of its supervisory function, the BCRA mandates and oversees a private deposit insurance corporation called SEDESA, which collects insurance premiums from banks and covers (up to ARS30,000 per person) deposits maintained by Argentine residents in financial institutions.

FOREIGN EXCHANGE POLICY AND REGULATION. Since 1991, the central bank had followed a policy of maintaining a one-to-one relationship between the local currency, the peso, and the US dollar. This has been achieved through significant monetary restraint, including maintaining enough reserves to buy back all local currency in circulation, if ever required. Although tested by subsequent debt crises and most recently by Argentina's own financial problems, this policy held up, making Argentina one of the most stable economies in the region.

Since mid-2001, though, a substantial deterioration of political stability and the subsequent loss of confidence in the ability to sustain the exchange rate led to a deepening of local economic trouble that finally brought down the 10-year-old convertibility regime.

As of October 2002 the exchange rate was around ARS3.65 per USD, sustained through central bank intervention and substantial foreign exchange and import/export controls. Since Argentina unilaterally suspended payments on its foreign debt, authorities are in lengthy negotiations with international monetary institutions to regain some international credit.

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E-COMMERCE LEGISLATION. A comprehensive digital signature bill was signed into law late in 2001. It places digital documents and digital signatures on an equal footing with their paper counterparts and puts the burden of proof on those disputing the validity of a digitally signed document.

There are currently no restrictions on foreign investment or ownership. However, capital inflows and outflows require central bank authorisation and may be subject to delays, especially on the outflow side.

TAXATION FRAMEWORK

The main business taxes are:

- VAT – currently at 21%, this covers most goods with the exception of food and some services. Interest expense is taxed at 10.5%;
- income tax – currently at 35%;
- gross receipts tax – collected by provinces at rates varying between 3% and 5%;
- export taxes – on some exportable commodities, mostly agricultural products; and
- import tariffs – on most goods.

Withholding tax is 0% to 17.72% depending on the transaction (interest, dividends, royalties, etc). Argentina has signed several tax

treaties with countries in Europe, the US and Latin America. Treaty provisions mitigate the effects of double taxation.

Local tax authorities apply the 'economic reality' principle in tax accounting. Thin capitalisation, aggressive transfer pricing and other tax avoidance strategies are covered and subject to reversal.

Although there are no restrictions on offshore investment, tax treatment of interest expense deductions is dependent on jurisdiction, with differential treatment in the case of tax havens.

For a summary description of the Argentine tax system, visit www.corporativasonline.com.

BANKING SERVICE PROVISION

The banking industry in Argentina, until recently among the most unregulated in the continent, has entered a state of transition where some activities are being re-regulated and others restructured to reflect the current market conditions.

From the current number of approximately 80 financial institutions in Argentina, a drastic consolidation is expected, with mergers and absorption of institutions, resulting in the loss of at least 30% of the current 4,300 branches.

As a consequence of the freeze on all bank accounts at the end of 2001, government bonds have been issued with varying maturities to repay deposits in pesos and US dollars. Credit has begun to reappear with new state sponsored mechanisms to redirect credit towards export industries and small businesses.

As a result of the fiscal crisis, provincial governments have issued a large array of small denomination bonds that are used as quasi-currency in each province. The federal government has added its own bonds, which circulate widely and whose collection is a crucial issue for businesses. Currently the quasi-currency circulation is AR\$7bn face value, a large percentage of total cash and currency.

Foreign currency denominated accounts have been eliminated and overseas funds transfers are greatly restricted, with regulations that are ever-changing.

CLEARING AND PAYMENT SYSTEMS

THE OVERHAUL OF THE ARGENTINE PAYMENT SYSTEM.

Argentina's payment system was recently overhauled, going from a fractured paper-based system to a complex array of low and high-value electronic money transmission vehicles. While most payments in Argentina are in cash, about one million cheques are written every day. Clearing for these cheques is via 84 local clearing houses, with clearing times between two and seven days. For some remote areas, cheques may take an indefinite length of time to clear! The central bank's leadership has made it possible to set up, in record time, an infrastructure that took decades elsewhere. With representatives from banks and a consulting firm, the central bank has developed a payments infrastructure based on five initiatives:

- second-day cheque clearing;
- second-day debit automated clearing house (ACH) for utility and other collections;
- second-day credit ACH for bulk and retail payments;
- end-of-day net settlement interbank payment system; and
- real-time online gross settlement system.

Institutions for these initiatives have different structures. Two competing clearing houses process retail payments with an eye on cost, while a single bank-run net settlement system manages most

interbank payments focusing on systemic risk control, and finally, the central bank runs the gross settlement facility. The system has been fully functional since 1999, except for a few remote locations.

In the face of the financial crisis, the electronic clearing mechanisms have by and large held up and have helped to reduce the effect of the banking freeze. In fact transaction volumes, slowly growing before December 2001, have soared since.

USE OF DEFERRED CHEQUES. One peculiarity of the payments environment in Argentina is the widespread use of post-dated cheques. Endorsing cheques and transmitting them through a chain of commerce started the habit of writing them with a forward date, despite the absence of legal support for this practice. Finally, the government recognised the ubiquity of this mechanism, mandating the existence of a maturity field on cheques. Consequently, in Argentine business, deferred cheques are perfectly legal IOUs handled by the banking system. Companies of all sizes are using deferred cheques for their payments, giving rise to the need to issue them on the payment side, and to receive, manage, discount and clear the cheques, on the collection side.

PAYMENTS. There are three broad categories of payments:

- **Suppliers.** Paying suppliers on the premises is still prevalent in Argentina because of the ability to withhold or delay payment depending on treasury needs and the fluctuations of the economy. With economic stability, however, making payments efficiently and reliably has become a requirement. Most banks offer accounts payable services. These generally involve the receipt of customer instructions (mostly via electronic transmission) and the issuance of either direct credit to suppliers' accounts or paper cheques. Delivery of commercial and tax papers is often bundled with the service. Because of tax advantages and efficiency, post-dated cheques are being used increasingly for accounts payable. A secondary market in large corporate post-dated cheques has developed and is a popular financing vehicle for small and medium sized enterprises (SMEs);
- **Payroll.** Increasingly, companies are using banks for their electronic payrolls. The trend was made difficult by union rules and low penetration of banking services among the general public. Since direct payroll credit is now mandatory for most companies, banks have developed special services targeted to employees and are actively pursuing payroll accounts; and
- **Tax.** Banks act as tax collection agents for the government. Since this collection is not profitable for banks, little has been done to modernise the service, which consists of allowing the use of teller windows by companies and individuals to make tax payments.

COLLECTIONS. Firms and individuals have a habit of paying at the bank and collecting at the customer's place of business. Until recently, banks had many teller windows and long teller lines. Businesses had waiting rooms where suppliers waited for a cheque (and were often told to come back the next day).

The basic collection service consists of specialised collection slips that customers use when paying in cash or cheques at the teller window, in respect of their commercial or consumer purchases of merchandise or services. The bank will collect the funds, prepare detailed reports and provide them to their corporate customers either electronically or in paper form. While large banks with an operating services franchise still have in-branch collection windows for their corporate customers, cheaper new alternatives based on

centralised cheque processing, electronic funds transfer or direct debit are beginning to appear.

Proprietary direct debit has been used by utilities for many years. It developed a bad reputation because publicly owned utilities used to overcharge and never return the excess. With the recent creation of an ACH debit facility, a new generation of open direct debit services is gaining popularity for periodic collections related to services of all kinds. Due to the growing popularity of deferred cheques, banks have developed services that outsource the chore of managing portfolios of collected deferred cheques. Depending on the treasury needs of the customers, banks may hold the cheques to maturity, deliver them or immediately credit the discounted proceeds.

Other payment and collection methods popular in other countries (eg lock-box) are not available due to the unreliability and high cost of postal services.

The local automated teller machine (ATM) switches, called Banelco and Link (associated with Cirrus and Maestro respectively), provide several payment services, such as bill payment at ATMs.

BANK CONNECTIVITY.

- **A common electronic banking platform.** Corporations in Argentina use a popular service called Datanet. Around 30 banks, covering the vast majority of banking relationships, participate in the system. This service allows subscribers to perform basic cash management tasks such as balance and transaction inquiries and the transfer of funds between accounts at participating banks.
- **Bank proprietary systems.** Several large banks offer an array of proprietary electronic connection services. Since Datanet is standard for cash management information delivery, most proprietary electronic banking systems are geared to providing special services, such as payroll payments, direct debit services and other payment and collection instructions. Some foreign banks offer integrated electronic banking platforms that provide access to accounts throughout Latin America.
- **Electronic data interchange (EDI).** EDI based on international standards is gaining a foothold in the banking industry in Argentina. Its main applications are in accounts payable services and ACH transaction initiation. In varying degrees, banks are migrating their electronic banking platforms to the internet.

CASH AND BANK ACCOUNT MANAGEMENT

ACCOUNT CONDITIONS. Banks offer the usual complement of chequing accounts, savings accounts, certificates of deposit, etc. Although the law currently allows payment of interest on cheque accounts, it is not a usual banking service. Different arrangements, however, exist to allow customers to optimise their use of funds.

In connection with the recent enactment of the tax on banking transactions, the central bank has made savings accounts exempt from the tax, but has limited such accounts to individuals, forcing the closure of all corporate interest bearing savings accounts. Argentine tax rules do not allow for non-resident accounts.

Argentina's central bank supervises banks on compliance with anti-money laundering rules, which are similar to those of Office of Foreign Assets Control (OFAC). More information on money laundering rules can be found at the central bank's web site www.bcra.gov.ar.

SPECIALIST CLEARING SERVICES. An important service in Argentina is accelerated cheque clearing. Since the country does not have a completely integrated clearing system as yet, cheques drawn on

some remote out-of-town banks may have indeterminate clearing times and fee schedules.

Banks manage those out-of-town collections through their own branch systems and through corresponding agreements. Often a single fee and clearing schedule is negotiated, enhancing predictability of corporate cash flows.

NETTING, SWEEPING AND POOLING. Banks offer sweep accounts, zero balance accounts and other concentration arrangements. Other cash pooling arrangements have not developed, because banking and tax regulations make them disadvantageous in many cases. Cross-border pooling is not practical due to foreign exchange restrictions.

LIQUIDITY MANAGEMENT

SHORT-TERM BORROWING. As part of the financial crisis, bank credit has been restricted severely, while many credit recipients have defaulted on their debt or have renegotiated terms. Facilities outside government-sponsored and directed credit are only available to very specific highly-rated customers.

SHORT-TERM INVESTMENTS. After several months without bank investment opportunities, very short-term investment instruments (one to 14 days) began to reappear in late 2002, with banks paying extremely high rates (around 50% at that time). It was expected that further normalisation would happen in the course of the following months.

A market began in all types of bonds related to the restructuring of the banking system, with all issues trading at deep discounts and showing extreme volatility.

BENCHMARK RATES. Short-term reference rates used locally are:

- *tasa de referencia del BCRA* – a blend of 30-day to 90-day consumer CD rates from a survey; and
- *tasa de call money* – a survey of interbank overnight borrowing rates.

CORPORATE FINANCE

Virtually no activity is currently taking place in the corporate finance arena, although it is expected that corporate and bank restructuring will generate a flurry of activity in mergers, acquisitions, debt-equity swaps and so on.

Claudio Migliore is the Head of Transactional Service at Grupo Santander.

cmigliore@gruposantander
www.gruposantander.com/en

The Treasurer's Handbook was published in March 2003. All members of the Association of Corporate Treasurers should have received their free copy. If this is missing, please contact Anna McGee at amcgee@treasurers.co.uk.

Copies are available for sale for £95 plus p+p from Alison Law on 020 7213 0710. Members may purchase additional copies at a reduced rate.

