Nasdaq

Building Better Markets for Tomorrow

How Latin America can unlock foreign investment flows with a new regional operating model

A Nasdaq Report Created in Partnership with The ValueExchange

Introduction

What do market participants and investors across the world need in order to grow their investments into a given market? As the world's emerging markets look to grow their domestic and inbound trading volumes, they must think on the same infrastructure enablers that dovetail with investor needs to help to make markets more accessible and efficient.

In Latin America, the evolution of capital markets is in full swing. The region's ongoing transformation is marked by ambitious innovation and a general embrace of technology, greater market access and emerging asset classes. Yet for all its allure, inflows are being bottlenecked, with market participants increasingly stymied in their plans to increase their investments as they navigate the intricacies and complexities of local markets.

A new survey of global buy-side firms conducted by Nasdaq and The ValueExchange **found 84% of respondents plan to increase their investment exposure to the region over the next 12 – 24 months**, indicating a robust intent to grow volumes and footprints.

Yet the survey also revealed structural challenges that restrict flows and add to costs: **59% of respondents said that market structure issues impose limits on their investment flows**. Specifically, fragmentation, processing errors and a lack of standardization are hampering operations, with respondents seeking greater cohesion and automation to increase efficiency and open doors to new investing opportunities.

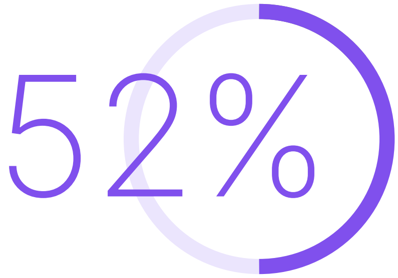
As with many emerging markets today, regional standardization has an important role in unlocking greater foreign investor flows and strengthening regional capital markets. Standardization itself needs definition and as our survey reveals, standardization itself needs definition and also requires alignment across stakeholders and domestic markets as they look to reduce complexity, lower costs, improve processing and attract new sources of investment.

In short, the LatAm region needs a new operating model for tomorrow based on greater, targeted standardization. But what will this regional operating model look like and how will we get there?

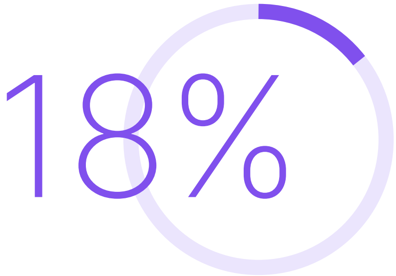
The following report comprises the first phase of our research on creating the regional, emerging market operating model of tomorrow. We started by surveying global market participants on their Latin America strategies, operational needs and volume blockers. Our next step is to collate that feedback with responses from regional financial market infrastructures (FMIs) to inform solutions for the future.

Who did we talk to?

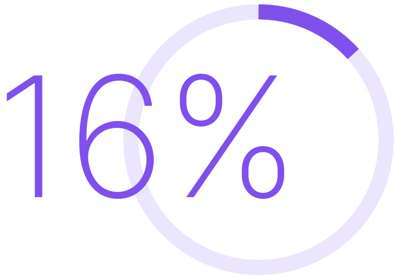
As part of this first phase, we gathered insights from over 100 firms investing in LatAm markets from North America (50% of respondents), Europe (30%), Asia-Pacific (11%) and Africa and the Middle East (9%). Of the respondents:



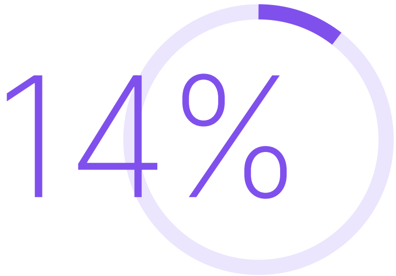
52% **are wealth investors***



18% **are institutional investors***



16% **are brokers**



14% **are custodian banks**

* We differentiated wealth and institutional investors based on assets under management (AUM), with wealth investors classified as those having under $1 billion USD AUM and institutional investors as more than $1 billion AUM.

Respondents represented a diverse slice of roles and responsibilities (overseeing settlements, corporate actions, repos/collateral management, securities lending and proxy voting) within organizations:

17%	**are in sales and trading**
16%	**are CFOs and heads of finance**
13%	**are COOs and heads of operations**
12%	**are in finance and treasury**
10%	**are CEOs**
10%	**are in middle office**
9%	**are portfolio managers**
7%	**are in product management and strategy**
6%	**are in digital assets innovation or other**

Our research found respondents were broadly active across the LatAm region. We also found certain markets were particularly attractive to either institutional or wealth investor profiles:

Of respondents active in Brazil, 24% have approximately $1 billion or more invested in the country, which is consistent with its draw toward scaled institutional investing. Comparatively, of respondents active in Peru and Argentina, 35% and 30% have approximate investments of $1 million to $50 million, respectively, indicating a preference from wealth investors. By and large, the majority of respondents has $51 million to $500 million invested in the region.

Investment Primed to Ramp Up Across the Region

The topline takeaway is that investors are intent to ramp up their Latin American exposures and quickly. Against a context of strong market growth and increasingly prosperous domestic economies, a total of 84% of respondents are looking to grow their exposure to Latin American markets. This includes the 74% planning to grow in the near term plus 6% who are familiarizing themselves with regional markets and 4% who have opened accounts but have not yet begun trading.

Importantly, 80% of institutional investors look set to expand their LatAm investments – highlighting a core market need to focus around the requirements and practices of the world's largest pension and fund managers. If LatAm growth is to be driven by institutional flows, the region must be able to compete with other emerging markets in order to capture global investors' attention.

It appears that the source and location of these investors is shifting and heading eastwards. While investments from North America into LatAm (historically the most significant investment corridor into the region) have grown by 12% over the last two years, it appears that European and Asian investments look set to outpace that growth with 16% expected growth in 2024-2026.

But this diversification of inbound investments potentially comes with new challenges. As we have seen with the 2024 transitions to T+1 settlements in North America, time zones matter a great deal to foreign investors. With more investments than ever flowing in from six to 14 time zones away, we risk seeing a new range of funding and operational pressures for the region's markets.

> Expectations for growth are driven most strongly by institutional investors, 80% of whom plan to grow LatAm investments on the two-year horizon, compared to 73% of wealth investors.

A range of unique considerations are driving the regional agenda behind institutional investments:

From North America, **30%** of growth is expected to be driven by passive investments – **putting the world's global index providers at the heart of the LatAm growth opportunity**. As recent experiences with China, Korea and other markets have shown, the role of index providers (such as MSCI, FTSE Russell, Bloomberg, JPMorgan and Nasdaq) can be pivotal in triggering hundreds of billions of dollars of investment flows – and so their needs and requirements command close inspection if LatAm's investment potential is to be fully realized.

From Europe, **25% of investors are driven by ESG and impact investing opportunities** – creating a different but equally compelling set of market requirements. ESG scoring and indexing of LatAm issuers, not to mention a liquid market in impact investment opportunities, are both key enablers to this increased investment flow.

From Asia, **41%** of investors are strategically motivated by the potential for attractive returns. Not benchmarked and not driven by ESG considerations, **a large part of the Asian opportunity is simply about investment performance**.

In order to unlock the full regional potential, LatAm's leaders have a complex range of factors to keep in mind.

This diversity in investment drivers was also apparent on a country level. For instance, 22% of respondents active in Mexico and 21% in Colombia were primarily driven by customer demands (the highest shares in the region); Chile and Argentina investors were driven by opportunities for attractive returns (65% and 53%, respectively) while Brazil offered investment diversification benefits for 43% of respondents. In terms of investor profile, the larger the firm the more likely they were to be driven by returns and valuations; smaller and mid-size wealth investors were on average more driven by index tracking and investment diversification.

> "LatAm markets are expensive. Flows could be so much more, but they aren't because it costs too much."
>
> Head of Network Management,
> Global Custodian

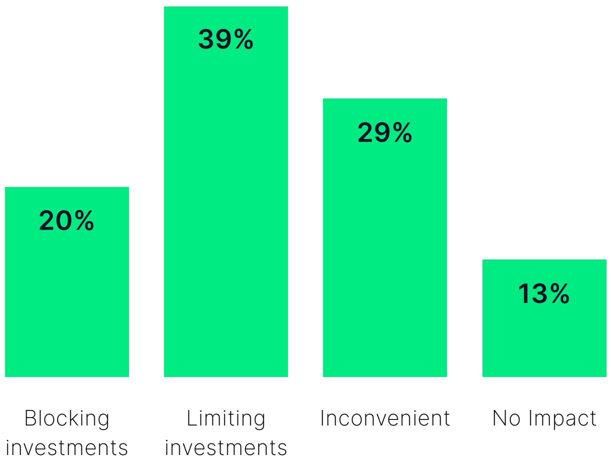
Numerous blockers to growth must be resolved

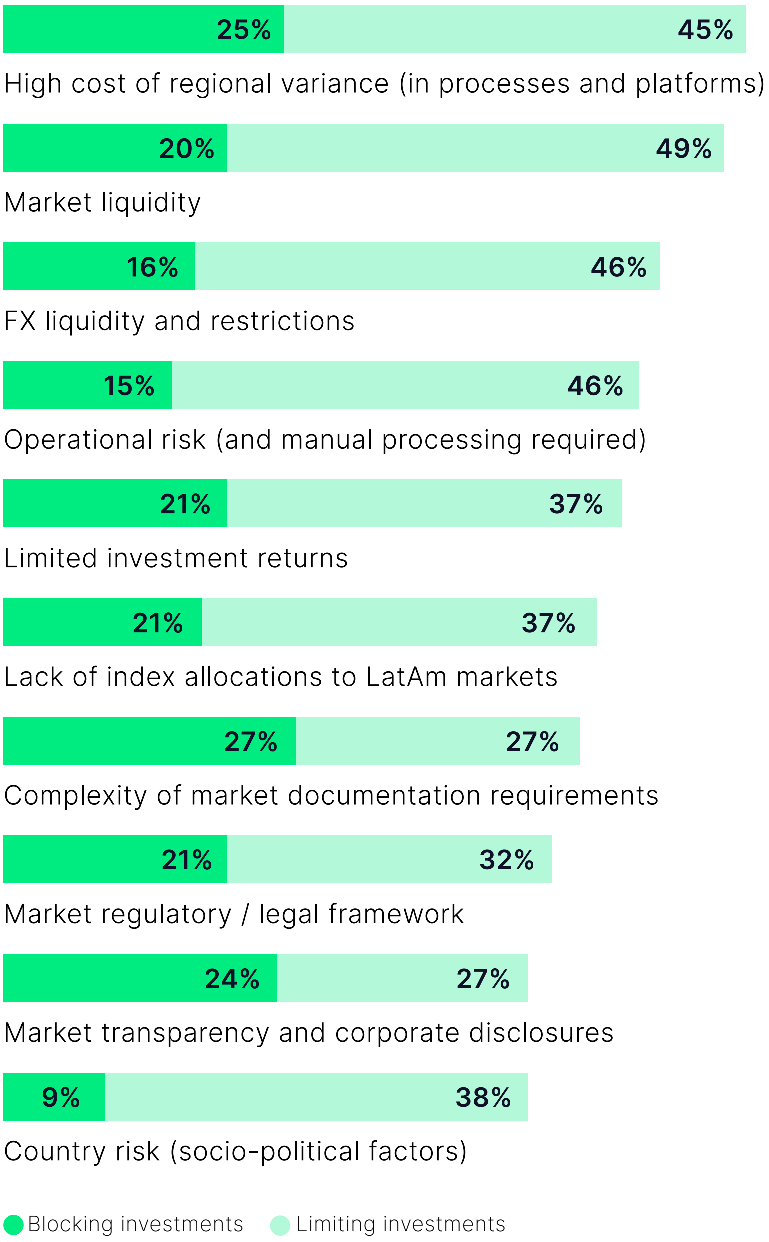
Despite the appetite for increased investment, LatAm markets are beset by various challenges, whether related to market structure, process fragmentation, lack of standards or high costs of trading.Furthermore, different investor profiles have different demands that markets must balance (e.g., institutional investors are concerned with standards, block trading, collateral management and shareholder engagement vs. wealth investors being operationally focused on returns, funding and financing, proxy voting and digital asset opportunities).

Taken together, however, these roadblocks put a significant damper on activity and, if left unaddressed, may imperil the expectations for growth. In total, 39% of respondents said these issues have forced them to limit investments and 20% said they were completely blocked by these factors.

The market is acting to improve risk and transparency—and buyers appear to be rewarding these efforts.

% of investors facing challenges and their level of impact





At the top of the list is the high cost of regional variance in processes and platforms, identified by 70% of respondents as being a blocker (of whom 45% said variance limited their volumes and 25% said it blocked them from investing). Variance is such a pervasive problem because it impacts investor types in different ways: for institutional investors, variance means maintaining different operating models for every market (and hence high costs and high operational risks); for wealth investors, variance prevents them from establishing and streamlining operations. Other blockers routinely identified by respondents were market liquidity, FX liquidity, operational risks posed by manual processing and complexity in documentation requirements.

> “Lack of consistency in processes (e.g., proxy, account opening, account structures) is a major challenge.”
>
> Head of Product, Global Custodian

On a daily basis, this complexity, variance and reliance on manual-based processes contributes directly to an unnecessary high rate of failures and errors that restrict or block volumes. Of respondents:

67% **experience unreasonably high levels of settlement fails**

61% experience unreasonably high levels of failed lending/recalls

56% experience unreasonably high levels of missed AGM/EGM voting instructions

51% experience unreasonably high levels of corporate action errors

49% experience unreasonably high levels of failed collateral movement/margining

When it comes to individual countries, variance also comes into play, as nearly each market is dealing with a different priority problem that's blocking investments:

Argentina

17%

said FX documentation requirements blocked flows

Brazil

15%

said inability to lend/borrow securities using global platforms blocked flows

Chile

17%

said complex market opening requirements blocked flows

Colombia

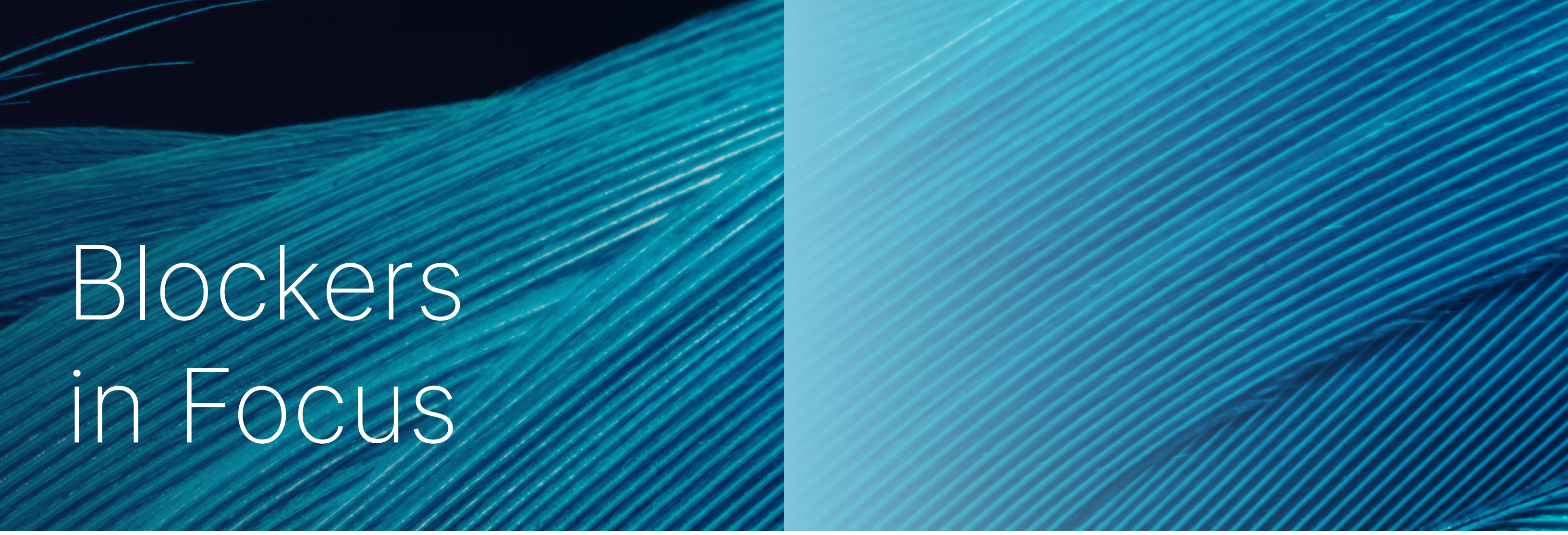
20%

said a lack of global standards for messaging blocked flows

Mexico

17%

said complex market opening requirements blocked flows



Blockers in Focus

To better understand the central issues preventing greater investment, let's drill down into three key challenges and how they play out across the region and respondents.

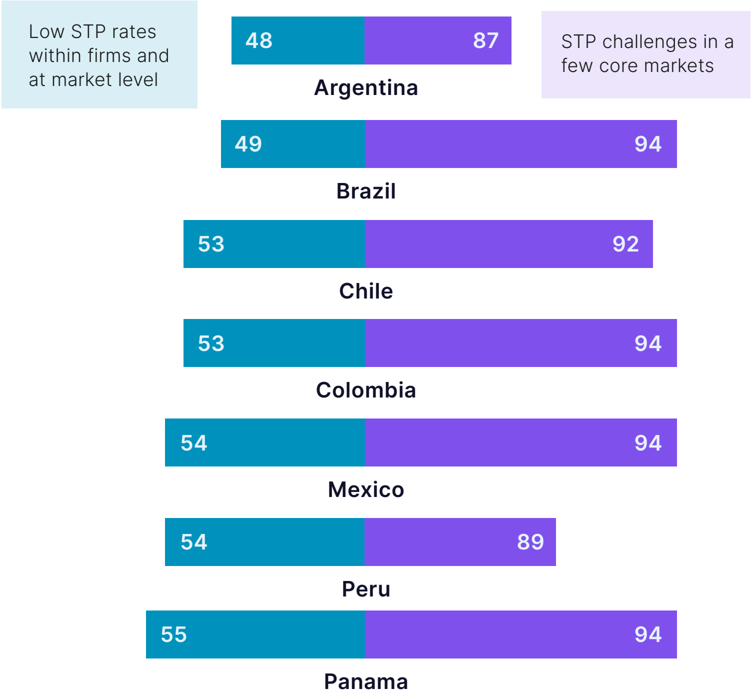
Straight-through processing (STP), or the lack thereof

Without the automation of STP efficiency, it's more costly and time-intensive for market participants to transact and transmit settlement instructions. This has the further impact of exacerbating failure and error rates given the fragmented and manual nature of these orchestrations absent STP. The lack of STP has further effects that hinder areas of expansion eyed by survey respondents and which LatAm markets would be keen to capitalize on, like securities lending.

Wealth investors are experiencing the most significant detrimental impacts of low STP rates. No firm with less than $1 billion AUM had STP rates above 55% across any single LatAm market. Yet this lack of STP is not exclusive to smaller and mid-size firms. Institutional investors still suffer from acute STP pains in core markets, which adds operational costs and risks while limiting scale.

Average STP rate by market for smaller firm
(where AUM is less than $1 billion)

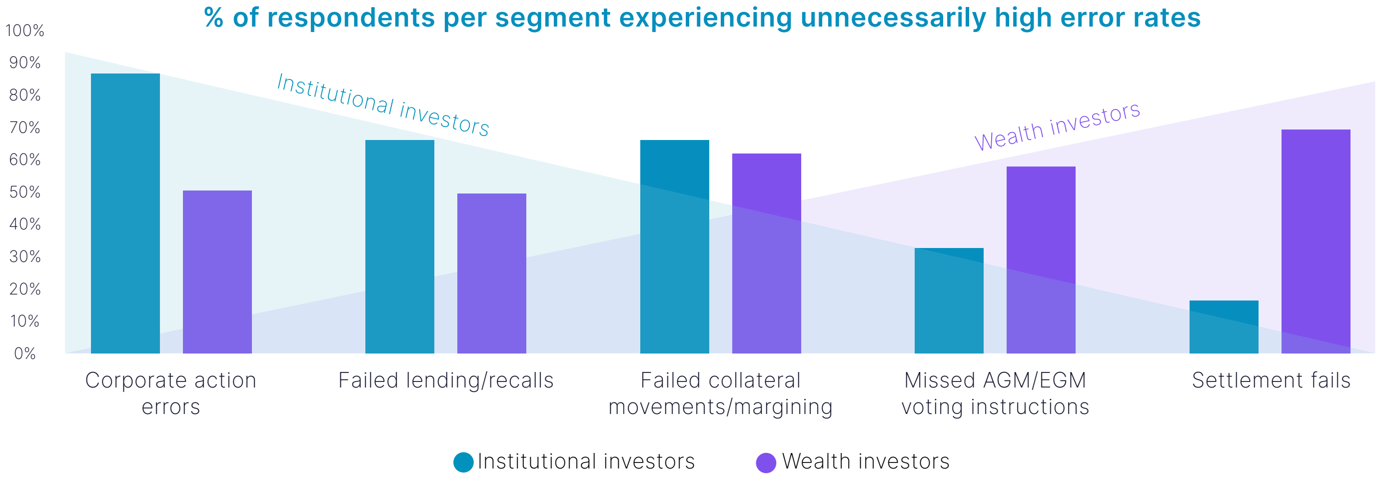
Average STP rate by market for large firms
(where AUM is less than $1 billion)



High error rates

Again, lack of standardization and regional cohesion creates an innate complexity that is compounded by all the other issues cited by respondents stifling their LatAm activity. The result is unnecessarily high error rates that complicate the day-to-day operations of firms. More than 50% of respondents active in Argentina reported excessive error rates for settlement failures and failed collateral movements/margining. Meanwhile, failed securities lending or recalls (45%) and corporate action errors (41%) were particular challenges in Brazilian markets.

Yet while these issues are felt by participants of all profiles, the data reveals a continued trend of institutional and wealth investors on opposite ends of the spectrum, their demands and faulty experiences squeezing the efficiency and reliability of capital markets.


% of respondents per segment experiencing unnecessarily high error rates

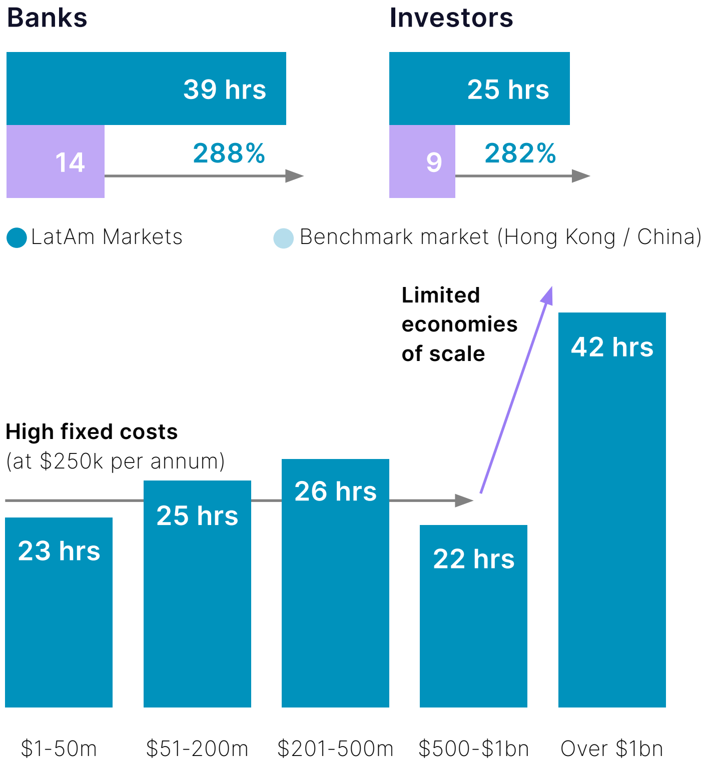
Complexity can be a full-time cost

The relationship between complexity and cost cannot be overstated. It weighs on all dimensions of firm operations, to the point that survey responses indicated that the resources needed to manage market complexity equal hiring a new full-time position.

On average, it requires 24 labor hours a day for wealth investors to manage LatAm trades and positions, including settlements, corporate actions and collateral movements. That's around three full-time headcounts on its own, which translates to high fixed costs for small and mid-sized firms. On the other end, institutional investor respondents reported 42 hours were needed each to manage complexity – highlighting a significant absence of scaling benefits for LatAm investors.

This is a pain point felt by all types of respondents, with banks reporting 39 hours a day and brokers reporting 27 hours a day.

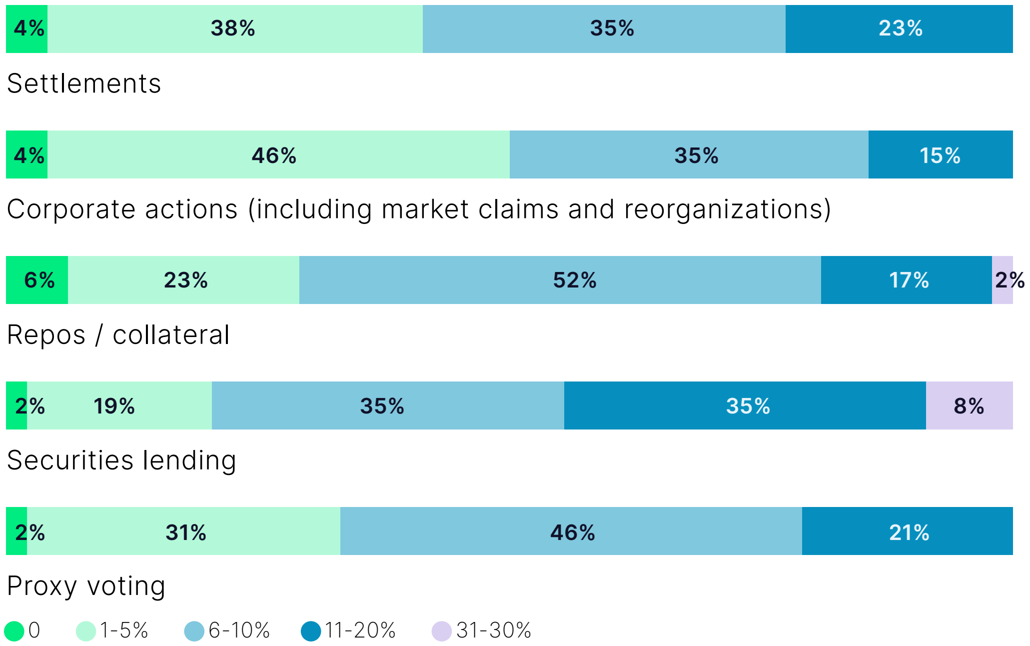
Average FTE/hours per day required to support LatAm investment activity



The Case for Regionalization

The challenges may seem daunting, but complexity can be smoothed and untangled. While each market has its own local considerations, there are still many opportunities to implement standardization, automation and best practices. The current level of fragmentation is untenable to growth, and with investors inclined to grow their volumes the region is at an inflection point in its need to harmonize processes and standards to capitalize on the momentum.

The upside is clear: Reduction of costs translates to growth in volumes. To add to that, there's a lot of room for structural improvement under the hood of LatAm markets. For example, respondents see potential for a high rate of savings if trade messaging and processing can be regionalized or harmonized. On average, respondents expected 11% savings across various operational activities including securities lending, proxy voting, repos and collateral, settlements and corporate actions. Responses showed considerable opportunity in securities lending, where 44% of respondents foresee savings of 10% or more.

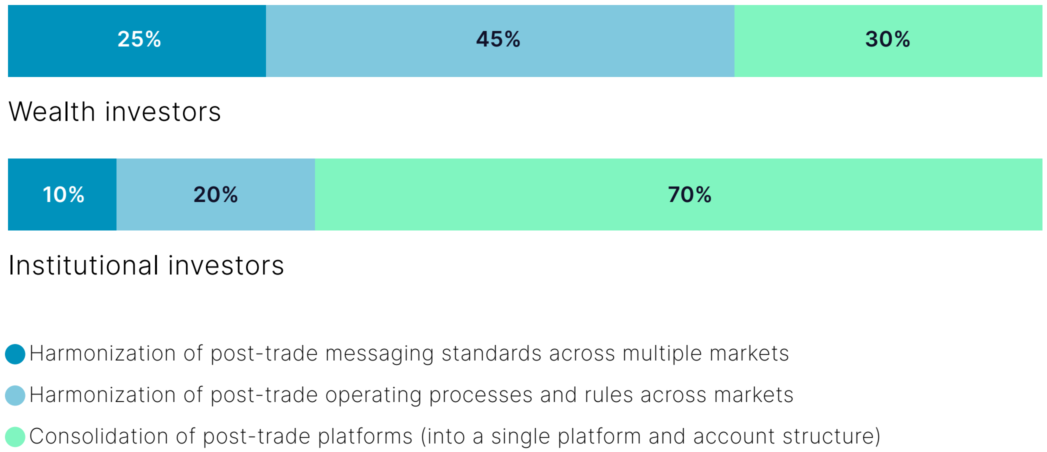


% of investors by savings they expect from post-trade regionalization/harmonization

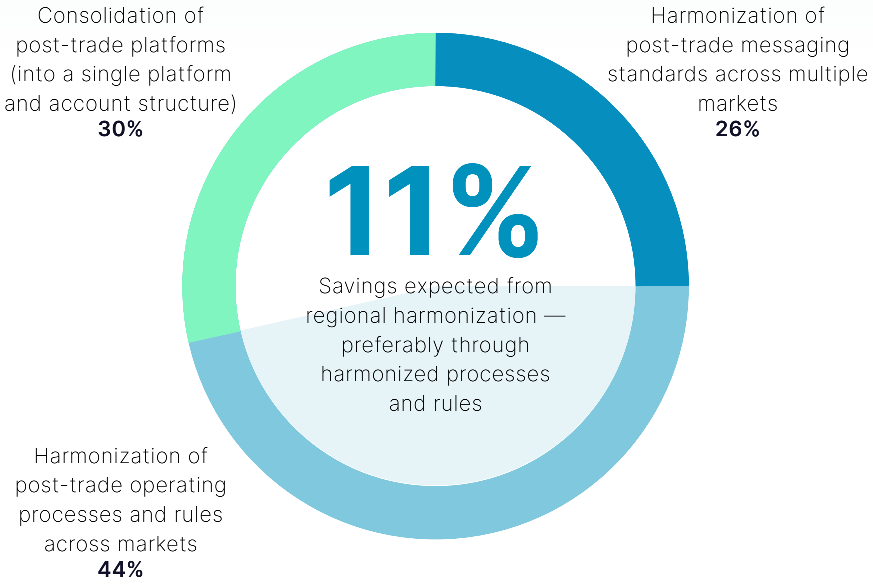
What do we mean by regionalization? To respondents, it's a mix of harmonizing processes and/or messaging across markets plus a consolidation of platforms and account structures. The answer can change depending on what type of investor you ask. For institutional investors, 70% preferred consolidation, which tracks with their desire to scale efficiently and cost-effectively across multiple markets. Having a singular access point would benefit their operations. However, 70% of wealth investors would prefer either harmonization of post-trade operating rules and processes across markets (45%) or harmonization of post-trade messaging standards across markets (25%). This too makes sense given the desire among investors with under $1 billion AUM to lower barriers via standards and streamlined processes.

Preferred method of regional harmonization by investor profile

(% of respondents)



Preferred model for regional harmonization by those looking to grow LatAm investments



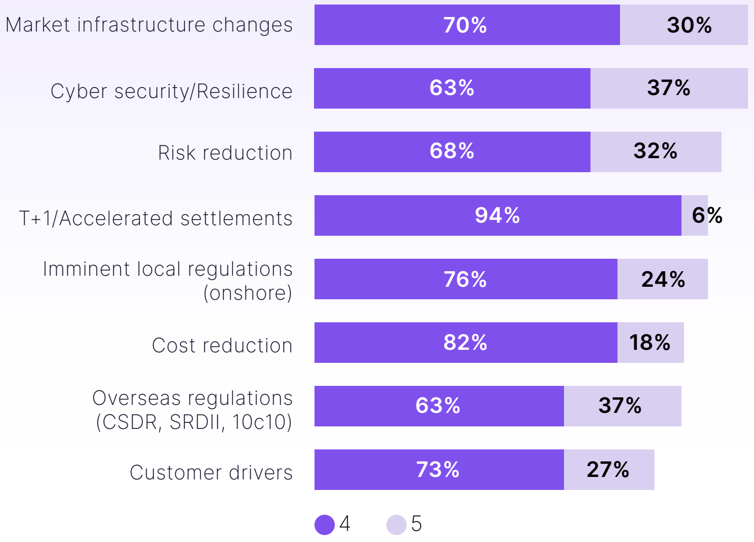
The definition of regionalization is also different by activity. Across the majority of the trade cycle (including settlement, securities finance and proxy voting), the preference of global investors is to see harmonization in the form of aligned and standardized operating processes and market rules across LatAm's markets. Yet in the corporate actions space, the most pressing need is simply for standardized messaging so that corporate events can be sourced and managed in the same way by global firms, regardless of which LatAm market they are relevant to. Importantly, the only space where regional harmonization is taken to mean true consolidation of platforms and accounts is in proxy voting.

What Will Tomorrow's LatAm Look Like?

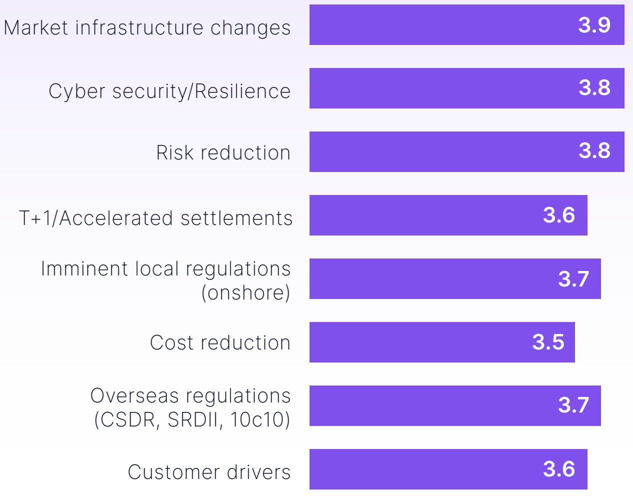
Knowing now where the friction and opportunities exist within LatAm markets, it's clear where action needs to be directed. But what exactly will the operating model of tomorrow resemble? Ideally, progress will be achieved through transformation, modernization and technology. Functionally, the emphasis must be on unblocking flows and access through standardization, regionalization, automation and best practices so that market operators optimize the bedrock considerations that will then foster growth and expansion. In short, it will require massive change.

When asked to rate the impact of various drivers to their change management agenda on a 5-point scale (with 5 being the most impactful), respondents gave the most weight to market infrastructure changes, cybersecurity and resilience, risk reduction and regulations (both on and offshore).

% giving each factor 4 or 5 rating (out of 5)



Average ratings



When it comes to the specific solutions that respondents leaned toward for core operational activities, there was some variation in the mix—but it always pointed back toward standardization across the board.

Average % post-trade cost savings impact by change type

Settlements

12%
Delivery of all settlement messaging using global (SWIFT) standards

11%
Instant generation and distribution of (golden copy) settlement instructions based on your allogation messages

7%
Real-time trade matching

6%
Real-time visibility of trade status

6%
Distribution of settlement instructions to all counterparties at once (not in sequence)

Corporate Actions

11%
Standardized operational processing of all events (including voluntary events)

11%
Standardized processes to manage failed settlements linked to record date/effective dates

10%
Delivery of event notifications direct from issuers (i.e. golden copy, with almost zero risk of data issues)

8%
Delivery of standardized messages for all event types (including voluntary and complex events)

8%
Real-time delivery of event notifications

7%
Delivery of event notifications using global standards (ISO200022)

Collateral and Margining

18%
Standardized, automated messaging for all collateral movements

14%
Connectivity to a regional or local collateral pool or platform

13%
Connectivity to global tri-party collateral pools (inbound and outbound)

12%
Centralized management of collateral substitutions

9%
Centralized ear-marking for collateral

Securities Lending

12%
Single, industry book-of-record for all lending trades

12%
Use of global platforms for execution and booking

9%
Standardized messaging for lending trades and recalls

8%
Standardized market rules and agreements

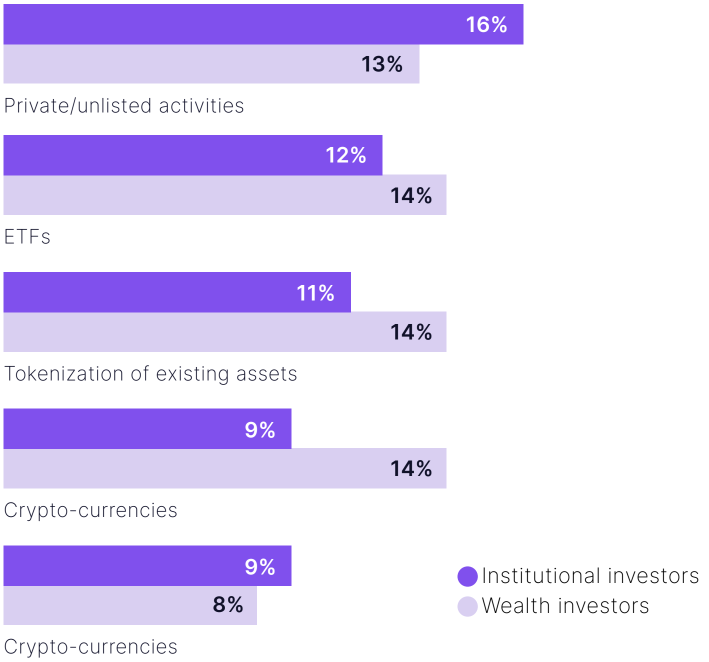
8%
Centralized margining lending activities

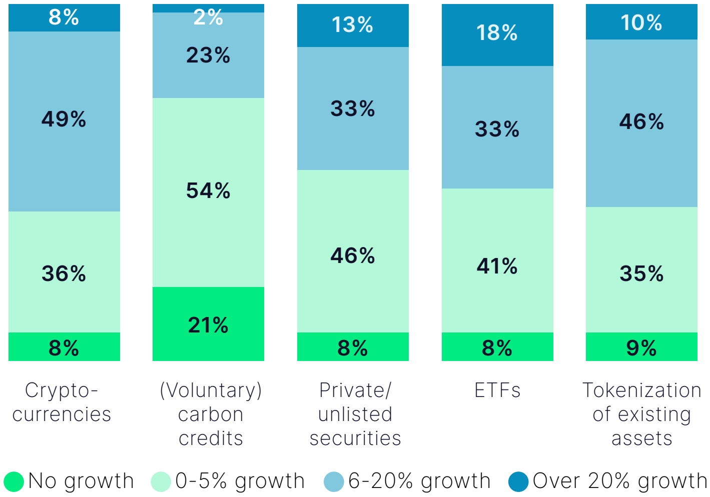
Digging into the theme of standardized messaging as a key enabler of investment flows, nearly 60% of respondents (56%) believe global messaging standards in settlements could improve their P&L by anywhere from 6% to 21% (either through reduced costs or improved earnings). In collateral and margining, a massive 81% believed standardized messaging for collateral movements could improve P&L up to 21%. The regionalization opportunity is clearly seen as transformational.

Standardized operational processing of all events in corporate actions, meanwhile, could deliver P&L improvement of 6% or more for 45% of respondents. Though respondents thought standardized messaging for securities lending and recalls could still be largely beneficial (34% expected P&L improvement of 6% or more) it was centralization of an industry book-of-record (50%) and global platforms for execution and booking (48%) that indicated the most room for improvement.

By addressing these targets areas, LatAm markets can fuel the growth that 84% of respondents see themselves on the cusp of. It's crucial the region gets this right by standardizing, automating and harmonizing in a targeted way, building on the specific needs of the activity and the investor that really counts. While there is no single standardization model that will solve all problems across the region, a well-designed and specific plan of messaging and alignment (and platform alignment in a small number of cases) can remove essential blockages for up to 59% of foreign investors – and hence create a virtuous cycle of investment growth across LatAm's major markets.

Average revenue growth expected from each asset class





Industry checklist

Step 1 ■□□□

Standardization of settlement, collateral and asset servicing messaging using global ISO standards

Step 2 □■□□

Alignment of market practices and rules in settlements and collateral management

Step 3 □□■□

Regional cooperation on shareholder engagement and proxy voting

Step 4 □□□■

A regional platform to drive securities lending liquidity across Latin America

Depósito Central de Valores (DCV), the Chilean CSD, announced in 2023 plans to leverage Nasdaq technology to **issue and settle digitized securities**. Incorporating this service will help differentiate DCV as a first mover in the tokenization of digital assets.

Download the case study to read more about DCV and Nasdaq's technology relationship.

Argentina

GDP

$604 billion[1]

Direct Investment in Country

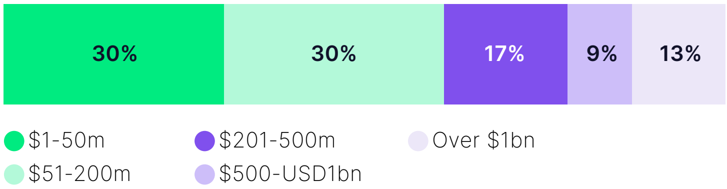
$6 billion

Financial Market Openness Index Value

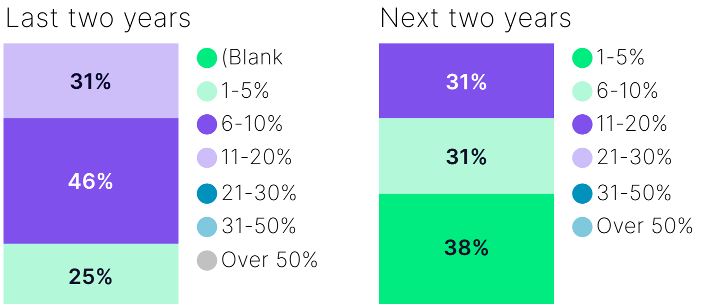
0.05 (1=fully liberalized)

> "Strong challenges around evidencing source of funds for FX (matching to trade confirmations)."
>
> Head of Operations, Leading Fund Manager

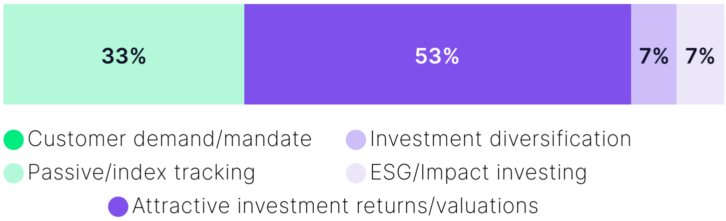
Investor Profile by AUM



Growth Expectations



Investment Drivers



Error Rates

56%
Settlement fails

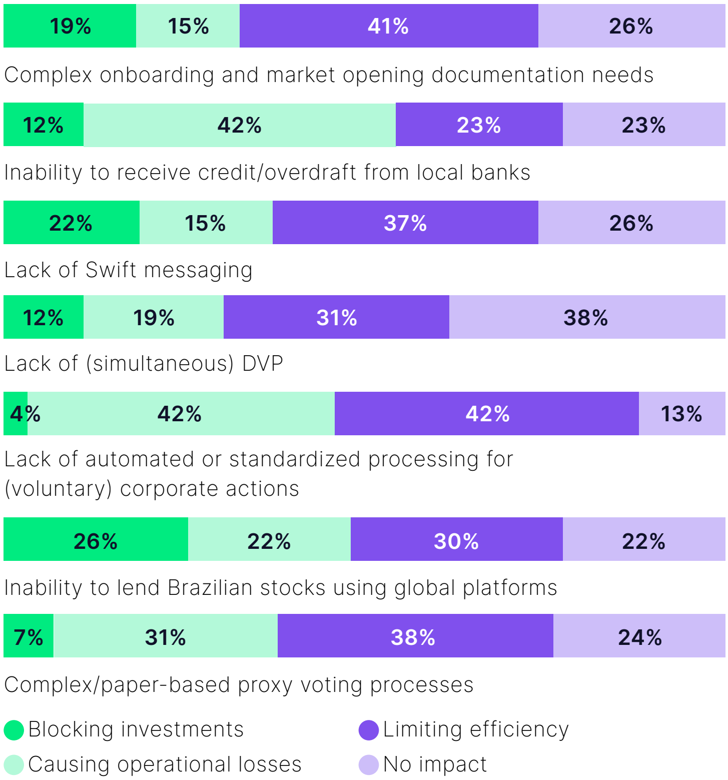
22%
Corporate action errors

50%
Failed collateral movements/margining

39%
Failed lending/recalls

33%
Missed AGM/EGM voting instructions

Investment Blockers



> "Macro-economic factors are the biggest obstacles to foreign investments into Argentina."
>
> Head of Product, Tier 1 Investor

Brazil

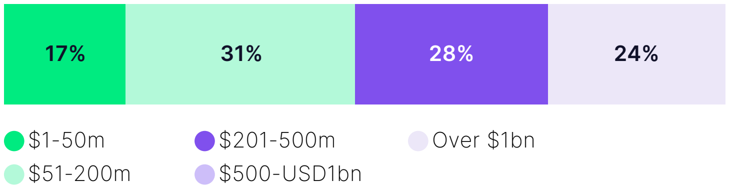
GDP
$2.3 trillion[2]

Direct Investment in Country
$96 billion

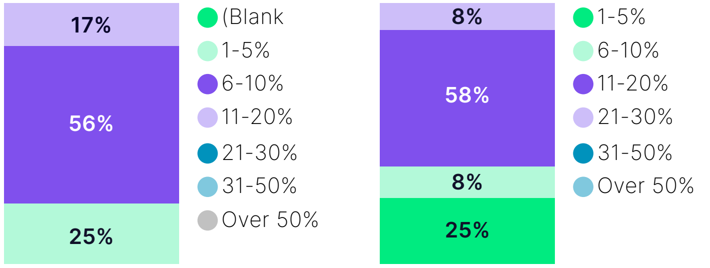
Financial Market Openness Index Value
0.1 (1=fully liberalized)

> “Great market structure (way ahead of the rest of the region), but local documentation and process requirements are really cumbersome: huge complexity of local regulations.”
>
> Head of Operations, Leading Fund Manager

Investor Profile by AUM



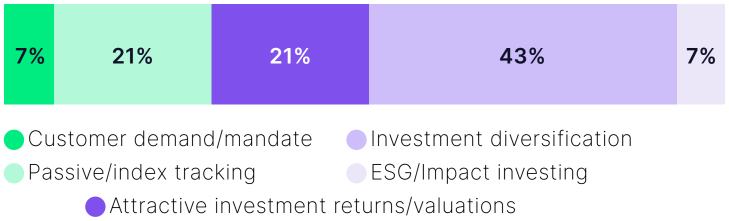
Growth Expectations



Last two years

Next two years

Investment Drivers



Error Rates

32%
Settlement fails

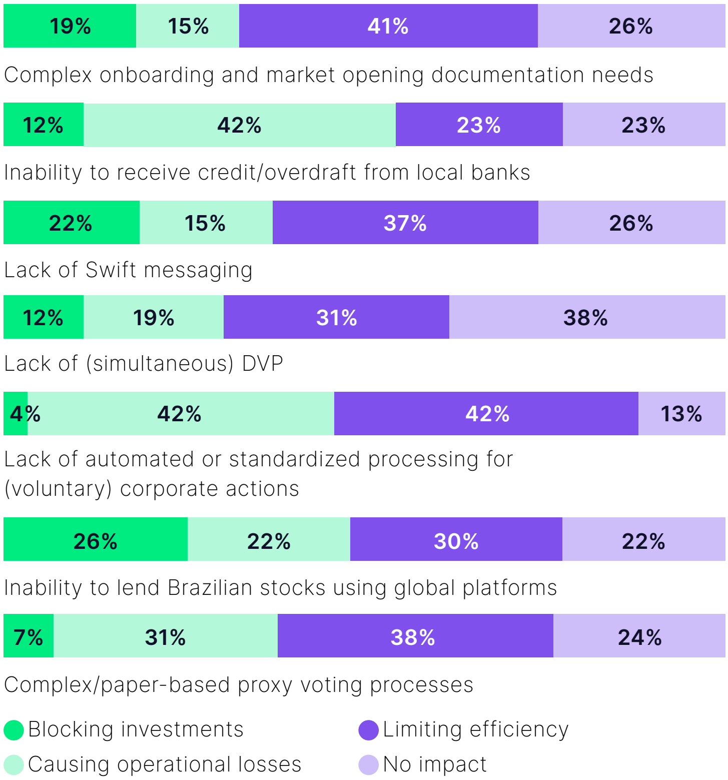
41%
Corporate action errors

36%
Failed collateral movements/margining

45%
Failed lending/recalls

27%
Missed AGM/EGM voting instructions

Investment Blockers



> “Biggest issue for inbound investors is market entry (and documentation requirements). Progress made in last few years to standardize registration and market entry docs so that all banks are using the same formats now.”
>
> Head of Product, Tier 1 Investor

Chile

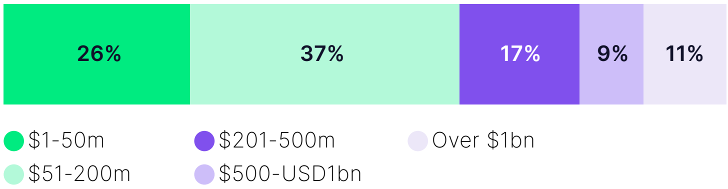
GDP
$334 billion[3]

Direct Investment in Country
$22 billion

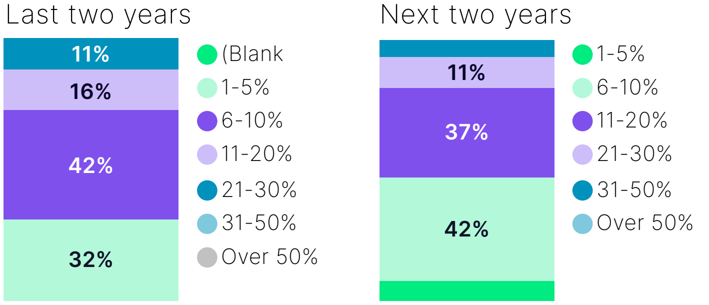
Financial Market Openness Index Value
0.6 (1=fully liberalized)

> "Different entry paths for different investors (Resolution 54-12) causes some confusion."
>
> Network Manager, Global Custodian

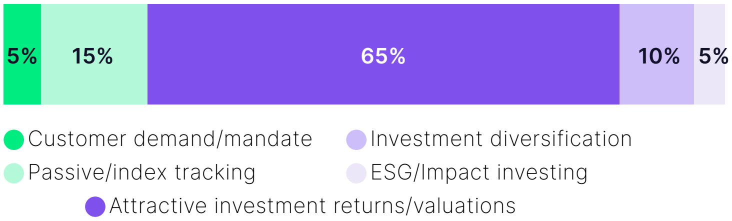
Investor Profile by AUM



Growth Expectations



Investment Drivers



Error Rates

39%
Settlement fails

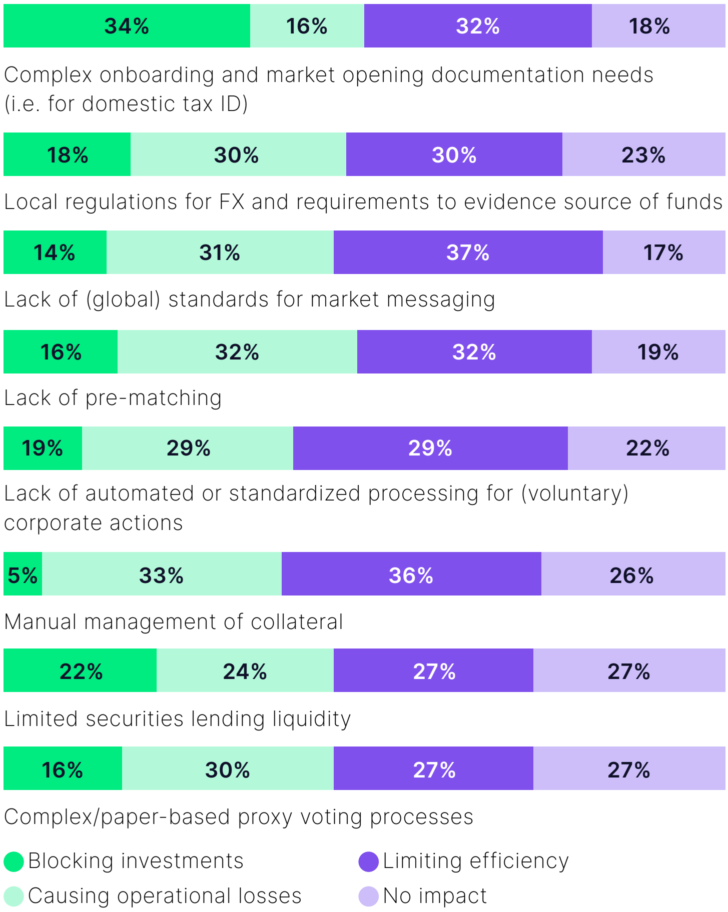
35%
Corporate action errors

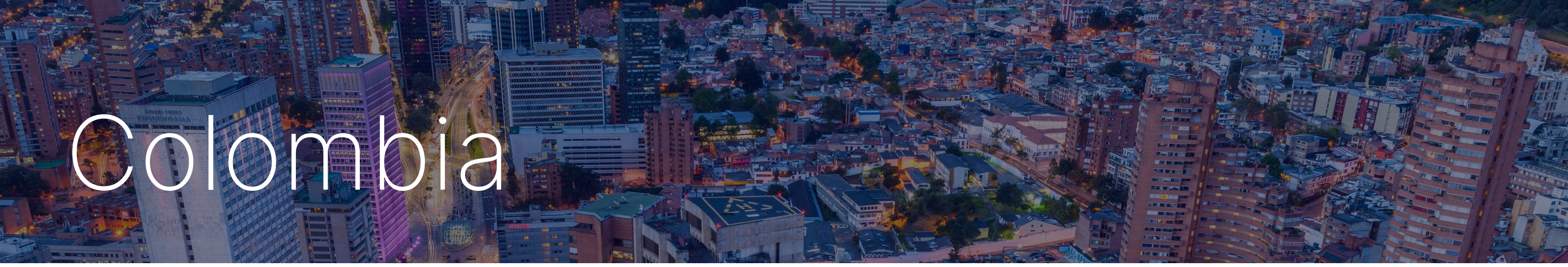
23%
Failed collateral movements/margining

32%
Failed lending/recalls

32%
Missed AGM/EGM voting instructions

Investment Blockers





Colombia

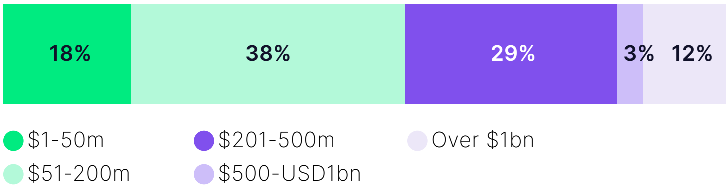
GDP
$386 billion[4]

Direct Investment in Country
$16 billion

Financial Market Openness Index Value
0.05 (1=fully liberalized)

> “Highly fragmented market (multiple systems across different activities, even in one market).”
>
> Head of Operations, Broker-Dealer

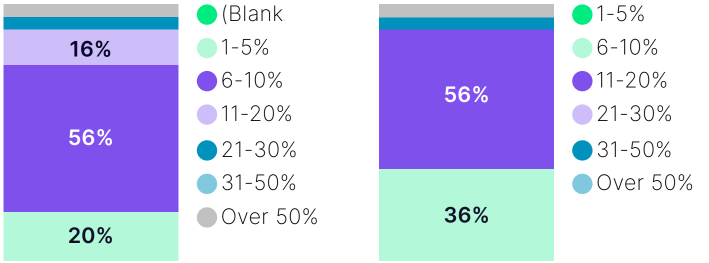
Investor Profile by AUM



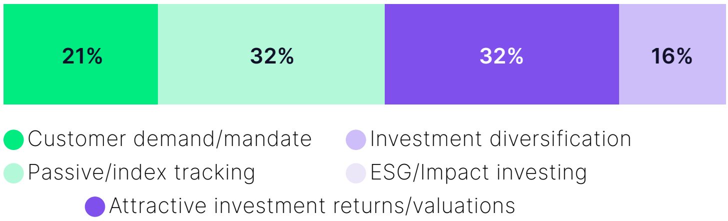
Growth Expectations

Last two years

Next two years



Investment Drivers



Error Rates

47%
Settlement fails

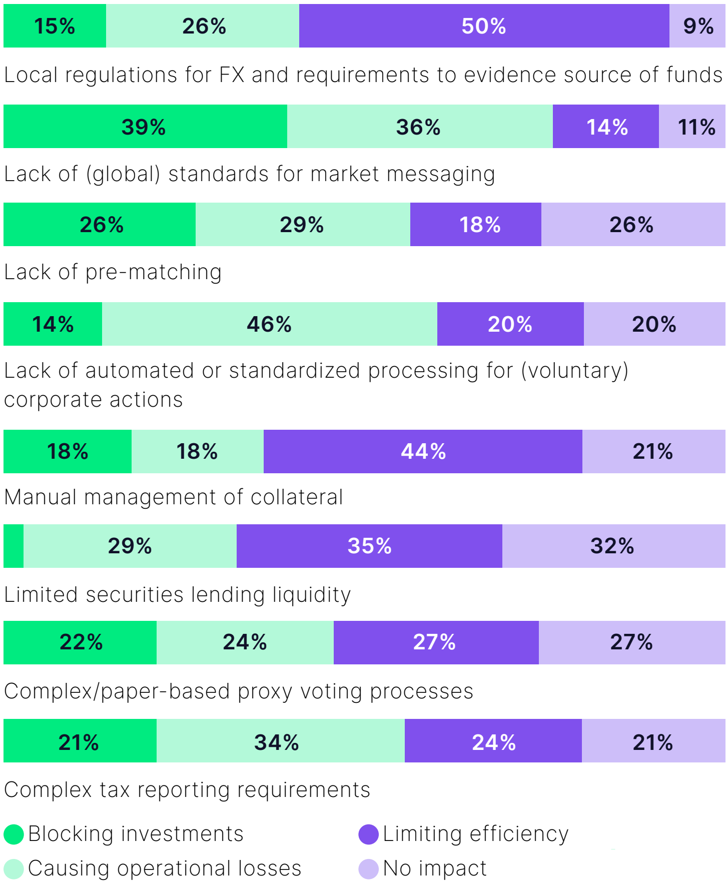
19%
Corporate action errors

31%
Failed collateral movements/margining

41%
Failed lending/recalls

47%
Missed AGM/EGM voting instructions

Investment Blockers



> “Very limited market infrastructure capabilities.”
>
> Head of Operations, Leading Investor

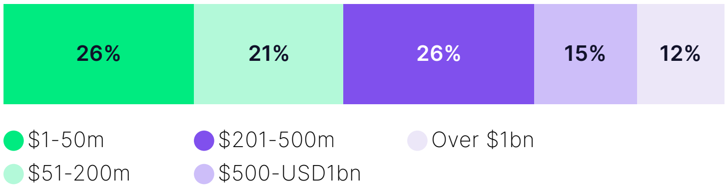
Mexico

GDP
$2 trillion[5]

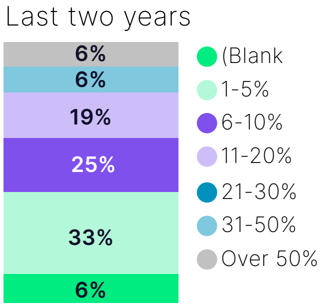
Direct Investment in Country
$24 billion

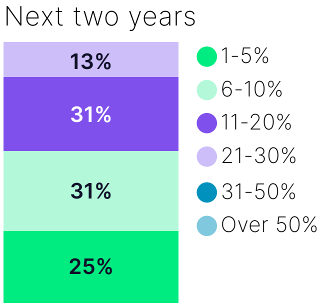
Financial Market Openness Index Value
0.15 (1=fully liberalized)

Investor Profile by AUM

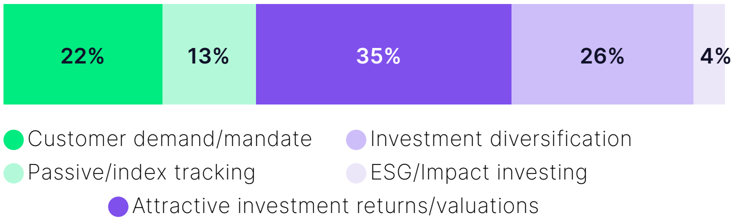


Growth Expectations





Investment Drivers



Error Rates

31%
Settlement fails

21%
Corporate action errors

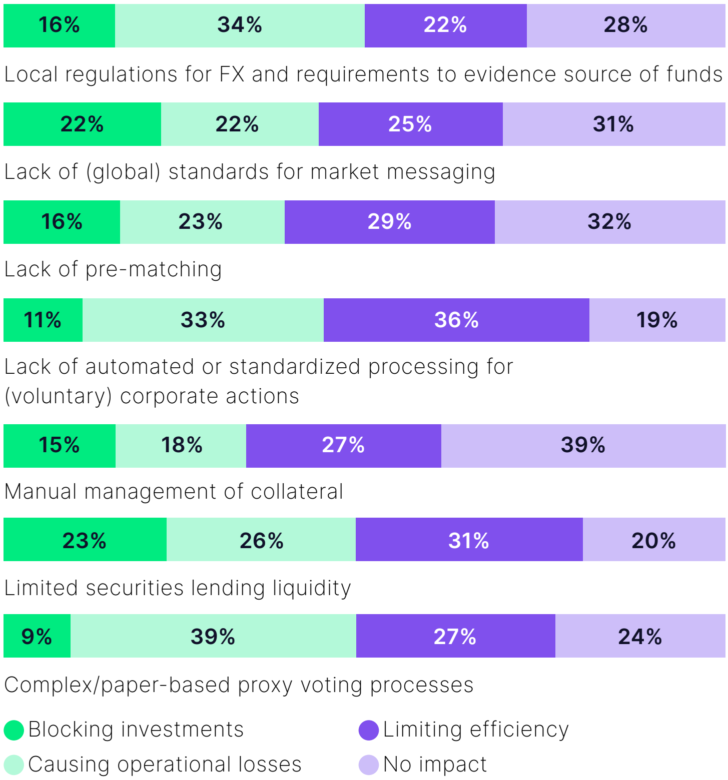
14%
Failed collateral movements/margining

17%
Failed lending/recalls

21%
Missed AGM/EGM voting instructions

> “[The question is] how to bring more liquidity back onshore through new capabilities like electronic trading, standardization, etc.”
>
> Head of Broker-Dealers Association

Investment Blockers



About Nasdaq Financial Technology

Nasdaq is a leading global financial technology company, providing mission-critical capital markets and regulatory technology solutions to the entire financial services ecosystem. As a scaled platform partner, we draw on our deep industry expertise and modern technology to help 3,500+ banks, brokers, regulators, financial infrastructure operators and buy-side firms mitigate, manage and capitalize on the risk, capital and regulatory complexities of today.

Our end-to-end support across the transaction life cycle—risk, regulatory, trade management and capital markets solutions—enables organizations to simplify operational complexity and adapt to a constantly evolving regulatory paradigm. Proven over 30+ years in delivering technology and trusted in over 50 countries, our standardized, cross-asset capabilities drive best practices, accelerate tomorrow's growth opportunities and help improve the efficiency, transparency and integrity of the financial system.

To learn more, visit www.nasdaq.com/solutions/financial-technology

Contact us: Tech@Nasdaq.com

About The ValueExchange

VX is a research, benchmarking and sales enablement company. Partnering extensively with industry associations across the globe, our aim is to not just answer questions but also to make sure that statistical insights support advocacy on leading themes and industry pressure areas.

Footnotes

[1] International Monetary Fund, August 2024; https://www.imf.org/external/datamapper/profile/ARG

[2] International Monetary Fund, August 2024; https://www.imf.org/external/datamapper/profile/BRA

[3] International Monetary Fund, August 2024; https://www.imf.org/external/datamapper/profile/CHL

[4] International Monetary Fund, August 2024; https://www.imf.org/external/datamapper/profile/COL

[5] International Monetary Fund, August 2024; https://www.imf.org/external/datamapper/profile/MEX