



FinTech

Business Guide 2021/2022



PERU

Ministry of Foreign
Affairs





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Author(s):

Collectively authored

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Paul Mendoza Salvador

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This material includes consolidated written and/or record interviews with representatives from the Peruvian Superintendency of Banking, Insurance, and Private Pension Fund Management Companies (SBS¹) the Peruvian Superintendency of the Securities Market (SMV²) and representatives from some of the most important organizations and companies in the FinTech ecosystem in Peru. This material was prepared based on information securely provided by the interviewed representatives of said entities and businesses, solely for corporate, educational, and academic purposes. The opinions and information offered by the interviewees herein are their own exclusive responsibility, and do not necessarily reflect the points of view of EY and/or the Peruvian Ministry of Foreign Affairs (MRE). EY and the Ministry of Foreign Affairs (MRE) assume no responsibility for the contents and accuracy of the claims or comments made by the interviewees. It should be borne in mind that the opinions and information offered by the interviewees in the preparation of this publication were made within a specific context, at a specific time.

1 Please note that the acronym is in Spanish.

2 Please note that the acronym is in Spanish.

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Lima

- Av. Víctor Andrés Belaúnde 171,
San Isidro Lima 27, Perú
- Av. Jorge Basadre 330,
San Isidro Lima 27, Perú
+51 (1) 411 4444



Chiclayo

Av. Federico Villareal 115 -
Salón Cinto,
Lambayeque
+51 (74) 227 424



Arequipa

Av. Bolognesi 407, Yanahuara
Arequipa 040
Arequipa
+51 (54) 484 470



Trujillo

Av. El Golf 591,
Urb. Las Flores del Golf III,
Víctor Larco Herrerva 13009
Sede Miguel Ángel Quijano Doig
Trujillo, La Libertad
+51 (44) 608 830



FinTech: An Opportunity for Financial Inclusion



**Paulo
Pantigoso**

Country Managing
Partner, EY Peru



Technology, as an axis of development, has been driving improvements as well as disruption by leaps and bounds. This phenomenon has been observed across all sectors, and financial services are no exception. Against this backdrop, FinTech companies arose to provide financial services using technology to make their clients' lives easier. Today, FinTech companies not only offer their clients an array of options, but also in many cases make financial inclusion possible for part of the population.

Despite the pandemic, FinTech companies received USD 1.6 billion in venture capital investment regionwide in 2020. At the local level, startups raised USD 46 million in capital, 18% were FinTech companies.

According to a recent study, there are now over 170 FinTech companies in Peru that provide a range of services, including payments, loans, factoring, currency exchange, and more. Additionally, we have the traditional actors in the financial markets, who are no strangers to

developing FinTech businesses. As part of their digital transformation pathway, the companies in Peru's financial system have incorporated FinTech models into their portfolio of services, with the goal of providing streamlined, flexible digital financial services.

The FinTech ecosystem boasts an increasing transaction volume and variety of services, and has even been expanding into new market niches. This has attracted interest from regulators, who seek to understand FinTech business models and their impact. Given their potential in Peru, the regulatory agenda aims to promote FinTech business while ensuring the stability, solvency, integrity, and transparency of financial markets. One example are the recent measures passed regarding the regulatory sandbox, as an effort to increase the law's flexibility for novel, controlled projects, thus promoting the development of innovative services.

With the goal of promoting FinTech companies, understanding their potential, the services they provide, and global and regional trends, among other things, we have prepared this "2021-2022 FinTech Business Guide." FinTech companies are in a state of continual development, and what better than a specially prepared guide to help promote these advances. I hope you will enjoy it.

Peru is no exception to the FinTech industry's exponential growth.



**Óscar
Maúrtua**

Minister of Foreign
Affairs

The Ministry of Foreign Affairs (MRE) is pleased to present this “2021-2022 FinTech Peru Business Guide” prepared by EY (Ernst & Young) Peru, as part of the cooperation agreement between our two institutions.

The use of digital technologies in financial services is becoming increasingly vital under our current circumstances of heightened digital transformation and the proliferation of innovative technologies, not to mention the significant challenges posed by the COVID-19 pandemic, which has made the digitalization of services a necessity for countries' economic survival and the integration of the least privileged sectors of society.

This can be observed in the incursion of FinTech (Financial Technology) companies in Latin America, a region that, until recently, had no consolidated statistical records on initiatives involving the use of information technology in the provision of administrative and financial services. According to the second edition of the “FinTech in Latin America” report from 2018, the number of financial technology startups in the Region had grown by 66% compared to 2017, from 703 to 1,166.

The priorities of FinTech companies in Latin America and their positive impact on small and medium-sized enterprises, as well as segments that have been underserved by the financial system, coincide with the UN General Assembly's 2030 Agenda and its Sustainable Development Goals, which primarily aim to put an end to poverty, generate full and productive employment, stimulate economic growth, and reduce inequality.



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At the sub-regional level, the Pacific Alliance - an integrative vehicle of which Peru is a member - has established guiding principles that promote innovation in financial services and competition, the preservation of integrity and financial stability, consumer protection, and greater inclusion and the deepening of financial markets.

As we will see, Peru is no stranger to this sector's exponential growth. According to the Emprende UP Innovation center (Emprende UP) there were over 150 FinTech startups at the start of this year, a number that is expected to surpass 200 by the end of 2021. Based on this evidence, Innova Esan predicts that Peruvian startups have jumped from a value of USD 4 billion in 2019 to between USD 15 and USD 20 billion today, just two years later. At the Latin American level, Peru was situated in seventh place in the "2021 Global FinTech Rankings" prepared by the research firm Findexable.

The Ministry of Foreign Affairs (MRE) reasserts its commitment to promoting the comprehensive development of the national economy and thanks EY (Ernst & Young) Peru for creating this new tool that covers the

FinTech ecosystem in Peru and throughout the Region, along with other relevant aspects of doing business, investing, and regulatory matters to be borne in mind when it comes to our country's FinTech companies.

The 2021-2022 FinTech Business Guide is a one-of-a-kind project that strategically consolidates relevant information on FinTech companies in Peru and neighboring countries.



Ana Cecilia Gervasi

Acting Director
General of Economic
Promotion - Ministry
of Foreign Affairs
(MRE³)

As Head of the Office of Economic Promotion at the MRE, I am pleased to take part in introducing this brand new “2021-2022 FinTech Business Guide,” an EY Peru initiative that will serve as a valuable tool to help readers learn about the current state of affairs, outlooks, and the potential of the FinTech sector in Peru, as well as to serve as a guide to Peruvians and foreigners alike who seek to undertake their own initiative in this sector in Peru.

For a long time now, digital transformation has been an urgent need. The unexpected emergence of the COVID-19 pandemic made the digitalization of services a useful option in responding to the problems posed by the circumstances. The use of digital media has allowed companies, both small and large, to withstand the blows of market closings and various restrictions, preserving jobs and maintaining the economic chain. Latin America in general, and Peru in particular, offer competitive advantages for the expansion of FinTech companies in the Region: extensive human capital, along with areas of development for this sector that have yet to be explored, as well as the public’s growing demand for higher quality services while ensuring public health safety. Latin America thus offers fertile soil for undertaking and reinforcing initiatives in this sector that contribute to reducing the digital gap and benefiting the entire socioeconomic spectrum, including the small and medium-sized enterprises that play a leading role in our economy. Aware of the potential of FinTech

companies in our economy, the “Bicentennial Digital Agenda” prepared by the Secretariat of E-Government and Digital Transformation of the Office of the Prime Minister in 2019 seeks to compile strategies, goals, and actions on digital matters, implementing cross-cutting measures throughout the State that have been grouped into five major “aspirations” for Peru: to be integrated, competitive, close-knit, trustworthy, and innovative. This “2021-2022 FinTech Business Guide” is a one-of-a-kind project that strategically consolidates relevant information on FinTech companies in Peru and its neighbors, providing us with useful lessons for the development of this sector. The Guide also highlights a number of trends in the digital world that are especially important for the Peruvian economy, such as online banking, crowdfunding, the remittance system, and more.

Last but not least, I would like to congratulate EY Peru for preparing this Guide. I have no doubt that it will make a significant contribution to the expansion of FinTech companies in our country, situating Peru in the front ranks of the global digital panorama.

The Office of Economic Promotion of the Ministry of Foreign Affairs (MRE⁴) will continue to promote these opportunities with the support of Peru’s extensive network of diplomatic missions abroad.

3 Please note that the acronym is in Spanish.
4 Please note that the acronym is in Spanish.

In the last seven years, the Peruvian FinTech sector has reported an average annual growth of 20%.



**Dario
Bregante**

Senior Manager,
Financial Regulation
and FinTech, EY Law



The COVID-19 pandemic has highlighted the enormous potential offered by the transformation of financial services: more efficient, quicker services, accessible from anywhere at any time. Among the numerous complications presented by the pandemic, social distancing brought many people face to face - perhaps for the first time - with the difficult decision to use financial services through remote means. The challenges were significant, but the results show that technological innovation in financial services, also known as FinTech, is irreversible.

Today, seven out of every ten of Lima's residents want at least one 100% digital banking product because of the ease of acquisition and use. Bearing that in mind, it should be no surprise that, as of August 2021, traditional financial actors reported 204 new products and significant changes, 41% of which were tied to the development of digital services, according to the SBS⁵. This regulatory agency highlights that many of these initiatives not only come from traditional institutions, but from an increase in alliances or collaborations with startups, thus facilitating the digital transformation of certain products and processes.

It should also be no surprise to see a diverse range of new actors providing financial services. According to data from Emprende UP⁶ as of September 2021, there are 171

FinTech companies nationwide, a growth of approximately 16% compared to last year. It is quite striking to note that over the last seven years, the average annual growth of the Peruvian FinTech sector was 20%.

In our new post- COVID-19 reality, the development of FinTech businesses is a priority for both new and traditional financial actors. How should this priority be addressed in Peru?

This edition of the FinTech Business Guide seeks precisely to serve as a reference tool for anyone interested in starting, developing, and/or investing in a FinTech business in Peru.

⁵ Please note that the acronym is in Spanish.

⁶ Please note that the acronym is in Spanish.

Chapter One provides key information on the current state of FinTech services in Peru, highlighting the 2021 Bicentennial Digital Agenda as part of the Peruvian government's wager on digital transformation at all levels, as well as the opportunities presented by the use of and access to technology in Peru. There can be no denying that FinTech services are a real opportunity to increase banking penetration and financial inclusion, providing access to high-quality financial services to the segment of the population that uses the internet on a daily basis - 86.6% of the public aged 6 and over, according to data from the first quarter of 2021.

One of the main challenges for FinTech companies' development is to identify the local regulations applicable to their operations. In Peru, there are no general regulations applicable to FinTech companies, nor any specific regulations on verticals. In response to this situation, Chapter Two of this Guide explains the primary options for setting up a FinTech company in Peru, whether by constituting an unregulated company, requesting authorization to engage in regulated operations, or even evaluating a commercial alliance. We also present a general overview of the venture capital industry in our country, in view of the 80% growth in investments in startups in the first quarter of 2021 compared to the first quarter of 2020, with USD 18 million invested in 18 transactions.

Another of the aspects to be considered in developing a FinTech company is the level of maturity of verticals in the destination country. Chapter Three discusses the situation of the FinTech ecosystem's main verticals in Peru and the trends observed over the past year.

This year 2021 has been one of growth and consolidation for the payment solution, digital wallet, foreign exchange, and remittance verticals. In late 2021, the government reported that 407,925 households that received the "Bono 600" subsidy had signed up for digital wallets. Another positive sign has been the increase in currency exchanges, from 31 companies in 2020 to 77 as of June 2021. We also recommend paying close attention to the digital banking, cryptocurrency, and factoring verticals in 2022.

It is essential to have access to multidisciplinary, comprehensive advice when developing a business. With this in mind, Chapter Four contains details on the most important regulations governing taxes, money laundering and terrorist financing prevention, free competition, information security and cybersecurity, intellectual property, labor, and accounting matters that play a key role in ensuring any FinTech company's sustainability and scalability in Peru.

Finally, knowing as we do that the biggest FinTech companies in Latin America are seeking to expand their business in the Region, we offer a view of the regional FinTech ecosystem in Chapter Five. In preparing this section, we were supported by our offices in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Central America, and Uruguay.

We at EY reassert our commitment to the development of FinTech businesses in Peru, as well as building a better working world. We invite you to read on, in the hope that this Guide will prove useful to you in your activities. And of course, we are always at the ready to assist you in any way possible.

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General Information on Peru

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1

Geography



a. Geographic Characteristics:

Peru is located in the center-western part of South America, bordered by the Pacific Ocean to the west, Ecuador and Colombia to the north, Brazil and Bolivia to the east, and Chile to the south. It has a total surface area of 1,285,215.6 km², divided administratively into 25 regional governments and 196 provinces, including the Constitutional Province of Callao. Geographically, it is divided into three regions:

Surface Area
1,285,215.60 km²

3 natural regions,
25 regional governments

196 provinces

Coast **11.7%**

The Coast consists of a narrow strip of desert-like flatlands, accounting for 11.7% of Peru's total area. This Region sits between the Pacific Ocean and the western flank of the Andes Cordillera, running from Ecuador in the north to Chile in the south. In the central part of this Region is the city of Lima, the capital of the Republic of Peru.

Highlands **27.9%**

The highlands are a mountainous region located between the western and eastern flanks of the Andes, featuring altiplano ecosystems and deep valleys. They account for 27.9% of the country's surface area.

Jungle **60.4%**

The jungle accounts for 60.4% of the country's surface area, consisting of the high jungle and low jungle. The majority of the low jungle is located in the Amazon Rain Forest.

b. Demographic Characteristics:

Demographic information on Peru⁷:

According to figures from 2020, Peru is the seventh most populous country in the Americas, with 32,626,000 inhabitants.

⁷ National Institute of Statistics and Information (INEI). *Estado de la población peruana 2020*.

Demographic Information by Department:

The following data were reported for 2020:

Region	Population in 2020
Amazonas	426,806
Áncash	1,180,638
Apurímac	430,736
Arequipa	1,497,438
Ayacucho	668,213
Cajamarca	1,453,711
Constitutional Province of Callao	1,129,854
Cusco	1,357,075
Huancavelica	365,317
Huánuco	760,267
Ica	975,182
Junín	1,361,467
La Libertad	2,016,771
Lambayeque	1,310,785
Lima	10,628,470
Loreto	1,027,559
Madre de Dios	173,811
Moquegua	192,740
Pasco	271,904
Piura	2,047,954
Puno	1,237,997
San Martín	899,648
Tacna	370,974
Tumbes	251,52
Ucayali	589,110

Source: National Institute of Statistics and Information (INEI). *Estado de la población peruana 2020*.

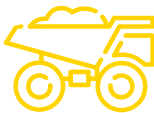
C. Resources and Climate⁸



Climate and Biodiversity

Peru is situated between the Equator and the Tropic of Capricorn, which means that its climate should be tropical. However, a number of factors - such as the Humboldt Current, the Andes Cordillera, and the dynamic of cyclones and anticyclones - give it a heterogenous climate. The heterogeneity of its geography and climate conditions makes Peru one of the ten countries in the world with the greatest biodiversity.

Peru is home to 70%
of the planet's biological diversity.



Mining resources

Peru possesses a wide variety of mineral resources, including:

- Silver
- Lead
- Zinc
- Gold
- Copper

Its deposits, mostly consisting of mixed metal ore minerals, are located primarily in the Andes, although they are spread throughout Peru

8 (i) National Center for Strategic Planning (CEPLAN). *El Perú en el que vivimos: caracterización del territorio*, Lima; (ii) Ministry of Agrarian Development and Irrigation, website.

2

E-Government and Digital Transformation

Peru's government is wagering on digital transformation at all levels

a. Secretariat of E-Government and Digital Transformation

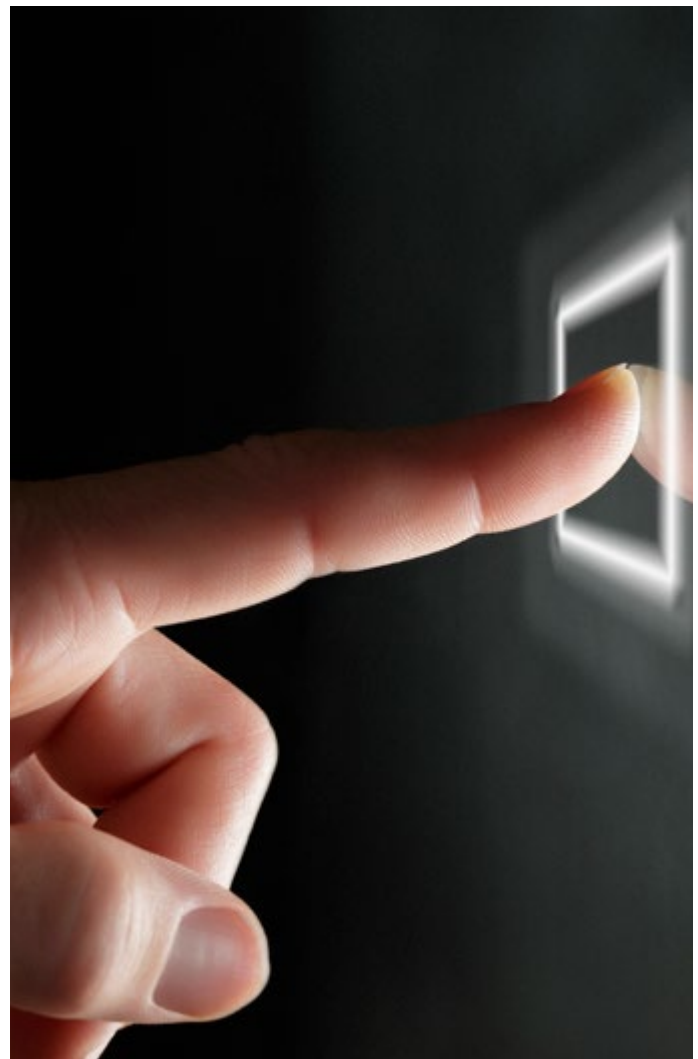
The Secretariat of E-Government and Digital Transformation (SGTD⁹) (previously known as the Secretariat of E-Government) which forms part of the Office of the Prime Minister, is the national technical and regulatory authority in matters of (i) e-government; (ii) digital trust; and (iii) digital transformation.

It is the governing body of the National Digital Transformation System, in charge of leading the Peruvian state's processes of technological innovation and digital transformation. It is also the national leader of digital governance, tasked with carrying out digital governance for the cross-cutting use and strategic adoption of digital and data technology in the Peruvian state.

As part of its duties, it coordinates actions among public administrative bodies, civil society, citizens, academia, and the private sector.

b. Bicentennial Digital Agenda

In its wager on digital transformation, the government, acting through the SGTD, has launched the Bicentennial Digital Agenda. This agenda sets forth the objectives to be achieved through strategies and concrete actions that Peru will undertake in digital matters, for the purpose of implementing technologies that help foster competitiveness, as well as social and economic development, thus improving citizens' quality of life.



⁹ Please note that the acronym is in Spanish.

Bicentennial Digital Agenda

The Bicentennial Digital Agenda consists of 21 commitments, spread across 5 aspirations:

Aspirations		Commitments
01 Integrated Peru		Roll out the Interests Affidavit Platform nationwide.
		Promote the Digital Strategy for Public Procurements.
		Support the Public Investment Project for the National Data Center.
		Implement the One-Stop Digital Platform for Public Complaints and Grievances nationwide.
		Implement the One-Stop Digital Platform for Transparency and Access to Public Information nationwide.
02 Competitive Peru		Implement the National Digital Services Platform based on Interoperability, Data-Driven Government, Security, and Digital Architecture.
		Promote Digital Identity for Citizens and Companies nationwide.
		Promote the Digital Transformation of Strategic Public Entities.
		Promote the National Connectivity Plan, prioritizing areas of greatest economic need.
03 Close-knit Peru		Digitalize the 100 public services that account for 80% of demand from citizens and companies using disruptive methodologies.
		Promote the Digital Health Care Strategy.
		Roll out the GEOPERU Georeferenced Digital Platform nationwide.
		Guarantee the dissemination, use, and ability to take advantage of Digital Platforms, applications, software, and digital innovation solutions in the Public Sector, and include donated private digital innovation solutions.
04 Trustworthy Peru		Prioritize the organization of and compliance with the regulatory framework on digital matters.
		Implement the National Digital Security Center and the National Data-Driven Government Platform.
		Promote the digital strategy of the justice system, prioritizing the prevention of violence against women and children.
		Design the National Digital Transformation Policy and Strategy based on multiannual periods.
05 Innovative Peru		Roll out the Digital Volunteering Program at both the national and international levels to promote civic duty, digital culture, and the protection of citizens against digital risks.
		Promote the implementation of the Roadmap for the Digital Economy.
		Promote the implementation of the Roadmap for Digital Education.
		Promote the E-Government and Digital Transformation Laboratory, prioritizing digital skills for public servants.

Source: Office of the Prime Minister (*Presidencia del Consejo de Ministros*). *Agenda Digital al Bicentenario*, management document, 2020.

c. Relevant Regulations on Digital Matters:

E-Government Law and Regulations

(Legislative Decree 1412 and Executive Decree 029-2021-PCM)

Applies to:

All entities that form part of the public administration system.

Purpose:

- ▶ Improve the provision of and access to digital services, ensuring that they are interoperable, secure, available, scalable, flexible, accessible, and facilitate transparency for citizens and the general public.
- ▶ Promote collaboration among public administrative entities, as well as the participation of citizens and other interested parties, for the development of e-government and a knowledge society.

Relevant information:

- ▶ Establishes the implementation of digital identity.
- ▶ Promotes the use of electronic National Identity Cards (DNIe¹⁰).
- ▶ Digital Services Framework for the Peruvian State.
- ▶ Digital Security Framework for the Peruvian State.
- ▶ Interoperability Framework for the Peruvian State.
- ▶ Data-Driven Government and Data Management Framework for the Peruvian State.
- ▶ Digital Architecture Framework for the Peruvian State.

¹⁰ Please note that the acronym is in Spanish.

¹¹ Please note that the acronym is in Spanish.

¹² Please note that the acronym is in Spanish.

¹³ Please note that the acronym is in Spanish.

Emergency Decree on Digital Trust Framework

(Emergency Decree 007-2020)

Applies to:

Public administrative entities, civil society organizations, citizens, companies, and academia.

Purpose:

Establish the necessary measures to guarantee people's trust in their interaction with the digital services provided by public entities and private sector organizations nationwide.

Relevant information:

- ▶ The Digital Trust Framework consists of three (3) facets:
 - 1. Personal Data Protection and Transparency:** The Ministry of Justice and Human Rights (MINJUSDH¹¹) is the authority responsible for regulating, directing, supervising, and evaluating matters of transparency and personal data protection.
 - 2. Consumer Protection:** The National Institute for the Defense of Free Competition and the Protection of Intellectual Property (INDECOPI¹²) is the authority responsible for regulating, directing, supervising, and evaluating consumer protection matters.
 - 3. Digital Security:** The SGTD¹³, in its capacity as the governing body on digital security in the country, regulates, directs, supervises, and evaluates digital security matters.
- ▶ The SGTD is the governing body of digital trust matters and responsible for coordinating each one of its facets.
- ▶ This Emergency Decree promotes the ethical use of data and digital technologies.

- ▶ Creates the National Digital Security Center, a digital platform that manages, directs, coordinates, and supervises operation, education, promotion, collaboration, and cooperation as they pertain to digital security nationwide.
- ▶ Creates the National Digital Security Incident Response Team, responsible for managing the government's response to and/or recovery from digital security incidents nationwide.
- ▶ Creates the National Registry of Digital Security Incidents, which receives, consolidates, and keeps data and information on digital security incidents reported by digital service providers.
- ▶ Creates the National Data Center, a digital platform that manages, leads, coordinates, and supervises operation, education, promotion, collaboration, and cooperation as they pertain to data-related matters nationwide, with the goal of strengthening people's trust and wellbeing in the digital environment.
- ▶ Creates the digital services and digital service providers category, requiring the service providers to comply with the required legal obligations, such as the management of digital security risks and establishing mechanisms to verify people's identity.
- ▶ Promotes the ethical use of data and digital technologies.



National Digital Security Center

Digital platform used to manage, direct, coordinate, and supervise operation, education, promotion, collaboration, and cooperation on digital security matters nationwide.

Emergency Decree on the National Digital Transformation System

(Emergency Decree 006-2020)

Applies to:

Public administrative entities, civil society organizations, the public, companies, and academia.

Purpose

Create the National Digital Transformation System.

Relevant information:

- ▶ Establishes the SGTD as the governing body of the National Digital Transformation System, and the highest technical and regulatory authority on the matter nationwide.
- ▶ Creates the National Digital Transformation System (SNTD¹⁴) which is the functional system of the Executive Branch, consisting of a set of principles, standards, procedures, techniques, and instruments through which to organize public administration activities and promote the activities of companies, civil society, and academia that aim to achieve the country's objectives in matters of digital transformation.
- ▶ Defines digital transformation as the continuous, disruptive, strategic process of cultural change rooted in the intensive use of digital technologies, data systematization and analysis to generate economic, social, and value effects for individuals.
- ▶ Defines the principles of the SNTD, including "data as strategic assets" and "person-centered digital services."

¹⁴ Please note that the acronym is in Spanish.

- Defines the National Digital Transformation Policy and Strategy, which are the strategic instruments used to guide digital transformation in the country.
- Defines the Senior Committee for a Digital, Innovative, and Competitive Peru as the space for coordination and articulation among the public and private sectors, civil society, academia, and the public for actions pertaining to the development and consolidation of digital transformation in the country.

Regulations on the National Digital Transformation System

(Executive Decree 157-2021-PCM)

Applies to:

Binding for public sector entities, and intended for guidance and reference purposes for the private sector, unless declared binding by a rule with the force of law.

Purpose:

Regulate the SNTD, establishing the processes, mechanisms, procedures, standards, measures, and instruments for the organization and functioning thereof.

Relevant information:

- The SNTD coordinates the actions and initiatives of its members, which include civil society organizations, the public sector, the general public, academia, and the private sector, to foster and promote the exercise of digital citizenship, the construction of a digital society, and the digital transformation of Peru.
- The SGTD issues binding opinions (i) on proposed laws regarding the country's digital transformation; (ii) to

clarify, interpret, or combine laws regulating the matters that fall under the SNTD; and (iii) on the rollout of cross-cutting platforms managed by the government.

General Government Policy for the 2021-2026 Period

(Executive Decree 164-2021-PCM)

Applies to:

Executive Branch agencies, regional and local governments, and entities that report to them within the framework of their competence.

Purpose:

The General Government Policy for the 2021-2026 Period is based on ten interrelated points that are consistent with the country's framework of policies and plans, and include guidelines and lines of intervention intended to orient the actions of different public entities.

Relevant information:

- Point 3 aims to promote science, technology, and innovation as pillars of development. To achieve this, it includes measures for the creation of the Ministry of Science and Technological Innovation, as well as the formation of strategic alliances for technological and productive development among academia, private enterprise, the State, and international cooperation at all levels of government.

- ▶ Point 8 on e-government and digital transformation with equity aims to guarantee inclusive, secure, and high-quality access to the digital environment and the ability to use digital technologies in all regions of the country, with the goal of consolidating digital citizenship, taking into account conditions of vulnerability and cultural diversity.
- ▶ The lines of intervention include:
 1. Promotion of the digital economy, e-commerce, digital entrepreneurship, innovation, open data, digitalization, and SME resilience.
 2. Acceleration of the sector's digital transformation.
 3. Strengthening of education, access to the digital environment, inclusion, and digital talent based on the promotion of partnerships with the private sector.

National Science, Technology, and Innovation System Act

(Law 31250)

Applies to:

Public administrative entities, civil society organizations, the general public, companies, and academia.

Purpose:

Create and regulate the National Science, Technology, and Innovation System (SINACTI¹⁵) and establish the applicable regulations for the purposes, duties, and organization of the National Council on Science, Technology, and Innovation (CONCYTEC¹⁶) which is the body in charge of promoting,

fostering, strengthening, and consolidating the country's science, technology, and innovation capacities to help contribute to its development.

Relevant information:

- ▶ Establishes the SINACTI objectives, including the promotion of science, technology, and innovation (STI) activities; the development and adaptation of different technologies and innovations in different regions and locations; offering financial and non-financial incentives for the implementation of STI activities, etc., together with public-private cooperation.
- ▶ Establishes the following levels of the SINACTI:
 1. Level for the strategic definition of the National Science, Technology, and Innovation Policy (POLCTI¹⁷).
 2. Level for the implementation of the POLCTI.
 3. Level for the performance of the POLCTI.
- ▶ At the strategic definition level, regulations, interventions, and the STI budget in the country are debated, approved, and coordinated.
- ▶ At the implementation level, national STI programs can be created within the framework of the POLCTI, aimed at meeting needs and closing specific gaps in the productive economy, as well as social and environmental services, with regard to STI-related matters.
- ▶ At the performance level, the POLCTI and STI activities are performed, including the training of specialized researchers, promoters, and technicians; basic and applied research; the protection and reassessment of traditional knowledge; the development, transfer, adaptation, dissemination of STI; innovative entrepreneurship, etc.

¹⁵ Please note that the acronym is in Spanish.

¹⁶ Please note that the acronym is in Spanish.

¹⁷ Please note that the acronym is in Spanish.

- Designates the CONCYTEC as the governing body of the SINACTI and the technical and normative authority on the matter.
- Establishes the POLCTI as the primary strategic instrument for orienting the SINACTI and developing public policy guidelines on STI matters.
- Creates the National Information Network on Science, Technology, and Innovation as an instrument for the systematic dissemination of academic, technical, and industrial knowledge and human capacities in STI.

Digital Signatures and Certificates Act and Regulations

(Law 27269 and Executive Decree 052-2008-PCM)

Applies to:

All private sector individuals and organizations, as well as public administrative entities

Purpose:

Regulate the use of electronic signatures constituting a statement of intent, vesting it with legal validity and force.

Relevant Information

1. Recognizes three types of electronic signature:
 - **Simple Electronic Signature:** Electronic datum attached to or logically associated with other electronic data used by a signer to sign.

- **Advanced Electronic Signature:** A simple electronic signature that meets the following characteristics: (i) it is unique to the signer; (ii) it permits the identification of the signer; (iii) it has been created using signature creation data that the signer can use and control; and (iv) it is linked to the signed data such that any subsequent modification thereof is detectable.
- **Qualified Electronic Signature or Digital Signature:** An electronic signature that can be used, via public-key cryptography, to identify the signer, and that has been created using means that remain under the control of the signer with a heightened degree of security, such that it is associated exclusively with the signer and the data to which it refers, thus guaranteeing the integrity of the contents and making it possible to detect any subsequent modification. It has the same legal validity and force as a handwritten signature, provided it has been generated by a duly authorized Digital Certification Service Provider within the Official Electronic Signature Infrastructure, and none of the defects of consent provided for in the Civil Code have occurred.

2. Burden of Proof: In case of dispute over the authorship of the signature, the burden of proof shall fall on the following parties:

- Simple and advanced electronic signature: The party claiming its authenticity.
- Qualified electronic signature: The party denying authorship.

3. Creates the **Official Electronic Signature Infrastructure**, which consists of a reliable, approved system, regulated and supervised by the competent administrative authority (INDECOPI) through which digital signatures can be generated and different levels of security can be provided regarding the integrity of electronic documents and the identity of their author(s). The digital signature generation system includes the participation of certification entities and record-keeping or verification entities approved by the competent administrative authority.

d. Mechanisms and platforms made available to citizens by the government

► **The Peruvian Government's One-Stop Digital Platform for Citizen Orientation - gob.pe.**

Through this platform, citizens can quickly and easily access institutional information and orientation on processes and services.

► **Open Data Platform - datosabiertos.gob.pe**

Data provided by different public entities for access and use by the general public. Here, citizens can find data on education, the information society, the environment, urban development, and more.

► **E-Government and Digital Transformation Laboratory**

Space for the cocreation, design, redesign, and digitalization of public services and digital transformation of the State, with the participation of academia, civil society, the public and private sectors, and the general public.

► **Peruvian Digital Security Incident Response Team**

SGTD Office responsible for leading efforts to anticipate and resolve challenges pertaining to cybersecurity and coordinate responses in case of cyberattacks.

3

Technological and Digital Infrastructure

a. Connectivity Status and Digital Infrastructure Overview

The growth of internet access in Peru has been notable in the last decade. In 2011, just 16.4% of Peruvian households had access to this service, while by the first quarter of 2021, 47.1% of households were now connected to the internet, according to the INEI¹⁸. However, the current outlook in our country shows that there are still a number of aspects that require work if we are to close the digital gap.

According to a 2020 study by the Andean Development Corporation (CAF)¹⁹, Peru ranks below the Latin American average in achieving internet access, based on the following indicators: (i) internet use for purposes involving health care applications (apps); (ii) internet use for educational apps; (iii) FinTech platform density; and (iv) e-commerce intensity. Figures provided by Peruvian public entities also show that certain groups still suffer from unequal internet access:

¹⁸ Ministry of Transportation and Communications (MTC). *Impacto del acceso a internet en el crecimiento económico del Perú: Un enfoque ARDL*, Lima, 2021.

¹⁹ Andean Development Corporation (CAF). *El estado de la digitalización de América Latina frente a la pandemia del COVID-19*, 2020.

- ▶ According to a report from February 2021 by the Ministry of Transportation and Communications²⁰ (MTC²¹) Metropolitan Lima has the highest percentage of households with internet access, at 61.7%, while the figure is 47.2% for other urban areas and 11.1% for rural areas.
- ▶ According to the Ministry of Education²² (MINEDU²³) 74.1% of high schools have internet access, but internet access for schools in rural areas is just half of the percentage found in schools in urban areas.
- ▶ The Ministry of the Economy and Finance (MEF²⁴) stated in its National Infrastructure Plan for Competitiveness, published in 2019, that in the short term, an investment of PEN 28.217 billion is required to achieve the basic access levels for telecommunications infrastructure that a country with socioeconomic and geographic characteristics such as ours should have.

It is important here to stress that there are also socioeconomic factors that hamper possibilities of telecommunications service consumption, since much of the population lives in areas with coverage but not everyone uses internet service.²⁵

With that in mind, the government issued Emergency Decree 014-2012 this year to implement a special procedure for the contracting of internet access services, with the goal of providing connectivity in rural locations and areas of prioritized social interest, in response to the national state of emergency and public health crisis. According to the MTC, these measures are expected to provide 3.2 million Peruvians with internet access.²⁶

Internet Coverage

According to the Office of Communications Policies and Regulation (DGPRC²⁷) under the MTC Vice Minister of Communications²⁸, there were two nationwide trends of note during the first quarter of 2021:

- ▶ On the one hand, mobile internet is the most widely used internet service.
- ▶ On the other, a comparison between the first quarter of 2021 and the first quarter of 2020 shows 16.7% annual growth in the use of fixed internet, while mobile internet use grew just 4.5% during the same period, meaning that fixed internet use grew more during the pandemic.

Peru and the International Situation: Other Countries in the Region

In 2018, the International Telecommunications Union (ITU) identified Chile as the country with the most internet users in the Region, with 82.3%, followed by Uruguay with 74.8%, Argentina with 74.3%, and Peru with 52.5%.²⁹



As of the first quarter of 2021, internet access in Peru was

66.8%

among the population aged 6 and older, representing **an increase of 6.5 percentage points** compared to the same quarter in 2020.³⁰

20 Ministry of Transportation and Communications (MTC). *Impacto del acceso a internet en el crecimiento económico del Perú: Un enfoque ARDL*, Lima, 2021.

21 Please note that the acronym is in Spanish.

22 Hiperderecho. *Presentamos el primer reporte sobre brecha digital de género en Perú*, 2020.

23 Please note that the acronym is in Spanish.

24 Please note that the acronym is in Spanish.

25 Ministry of Transportation and Communications (MTC). *Impacto del acceso a internet en el crecimiento económico del Perú: Un enfoque ARDL*, Lima, 2020.

26 Ministry of Transportation and Communications (MTC). *MTC lanza medidas para que 3.2 millones de peruanos accedan a Internet*, 2021.

27 Please note that the acronym is in Spanish.

28 DGPRC. *Estadísticas de Servicios Públicos de Telecomunicaciones Primer Trimestre 2021*.

29 Ministry of Transportation and Communications (MTC). *Impacto del acceso a internet en el crecimiento económico del Perú: Un enfoque ARDL*, Lima, 2020.

30 National Institute of Statistics and Information (INEI). *El 66.8% de la población de 6 y más años accedió a internet de enero a marzo del presente año*, 2021.

Main Indicators

Figures provided by the DGPRC under the MTC Vice Minister of Communications.

Summary of Main Public Telecommunications Service Indicators

	Services	Indicator	IQ 2020	IQ 2021	Annual %
Internet	Fixed Internet (*)	Subscribers	2'418,596	2'822,635	16.7
	Mobile Internet	Subscribers	25'958,571	27'123,340	4.5
Mobile Telephony		Service Lines	39'125,455	40'153,547	2.6
Fixed Telephony	Fixed Telephony for subscribers (*)	Service Lines	2'382,219	2'291,387	-3.8
	Public Telephony (*)	Public telephones	103,314	90,896	-12.0
Cable Radio (*)		Subscribers	1'894,512	1'867,508	-1.4

(*) Preliminary data

Source: Carriers. Prepared by: DGPRC-MTC. *Estadísticas de Servicios Públicos de Telecomunicaciones, Primer Trimestre 2021*

Summary of Main Public Telecommunications Service Infrastructure Indicators

	Infrastructure	Indicator	IQ 2020	IQ 2021	Annual %
Antennas	Mobile Operators	Number of antennas	63,502	68,606	8.0
	RMIO	Number of antennas	4,868	5,847	20.1
Controllers		Number of controllers	318	431	35.5
Fiber Optics		Number of fiber optic nodes	6,862	7,468	8.8
Coverage	Mobile Services	Number of locations		45,087	
	Fixed Internet Service	Number of locations		4,362	

Source: Carriers, RMIOs. Prepared by: DGPRC-MTC. *Estadísticas de Servicios Públicos de Telecomunicaciones, Primer Trimestre 2021*.

b. Technology use and access data in Peru:

Data as of December 2020, according to the INEI³¹:

► Cell phone:



93.2%

of households in the country have at least one member with a cell phone. According to OSIPTEL³², eight out of ten Peruvians, on average, connect to the internet through their cell phone.

► Preference in activities:



96.2%

of the population use the internet to communicate with one another.



86.1%

use the internet to get information.



79.2%

use the internet for entertainment activities.

► Technologies used to access the internet:



87.7%

access the internet through their cell phone.



18.3%

through a desktop computer.



17.6%

through a laptop.



2.1%

through a tablet.

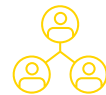


8.1%

use another type of device, such as a smart TV.

Data for the first quarter of 2021³³:

► Frequency of internet use:



86.6%

of the population aged 6 and over use the internet daily.



12.5%

use the internet once a week.

► Internet access among the population between ages 6 and 11:



51.9%

of the population between the ages of 6 and 11 accessed the internet during the first quarter, while only 36.2% of this population did so during the first quarter of 2020.

31 National Institute of Statistics and Information (INEI). *Las tecnologías de información y comunicación en los hogares: Octubre-Noviembre-Diciembre 2020*.

32 Please note that the acronym is in Spanish.

33 National Institute of Statistics and Information (INEI). *El 66.8% de la población de 6 y más años accedió a internet de enero a marzo del presente año, 2021*.

c. Digital Identification Systems

What is a digital identity?

A digital identity consists of the set of attributes corresponding to a single individual that make it possible to identify them in digital environments.

Regulatory Framework on Digital Identity

E-Government Act

(Legislative Decree 1412)

Since 2018, this law has regulated the e-government framework for the proper management of digital identity, digital services, digital architecture, interoperability, digital security, data, and cross-sector use of digital technologies in the digitalization of processes and the provision of digital services by public administrative entities. This law is important because it establishes the Peruvian government's digital identity framework, consisting of the main guidelines and standards for the effective identification and authentication of Peruvian citizens and the general public when they access digital services.

Regulations on the E-Government Act

(Executive Decree 029-2021-PCM)

Recently, in February 2021, this law was issued to regulate the E-Government Act, approved by virtue of Legislative Decree 1412. The regulations set forth the following components of the Peruvian government's digital identity framework, which applies to the digital identity of both Peruvian citizens and foreigners:

1. Principles: Inclusion, unique identifier, non-discrimination, and functional equivalence of identity verification.

2. Digital citizens.
3. Digital identity managers.
4. Creates the National Digital Identification and Digital Identity Authentication Platform (ID GOB.PE).
5. Digital identity attributes.
6. Providers of supplementary identity attributes.
7. Authentication credentials.

Emergency Decree on the Digital Trust Framework

(Emergency Decree 007-2020)

The purpose of this law is to establish measures that guarantee people's trust in their interaction with digital services. It also requires digital service providers to implement mechanisms to verify the identity of persons accessing digital services, in keeping with the risk level thereof and in accordance with the laws in force on personal data protection.

To date, no regulations have been issued for this emergency decree. These regulations are expected to clarify the scope of the law that will regulate digital interaction, establishing the rights and obligations of users and digital service providers.

Digital Identity Management and Progress

The National Registry of Identification and Vital Statistics (RENIEC³⁴) is the Peruvian entity in charge of organizing and maintaining consolidated identification records for individuals, as well as issuing National Identity Cards (DNIs³⁵) proving people's identities.

RENIEC has taken a number of initiatives to provide identification services using information and communications technologies. For example, we have:

³⁴ Please note that the acronym is in Spanish.

³⁵ Please note that the acronym is in Spanish.

- **The Electronic DNI (DNle):** The DNle is a smart card with a chip that stores our digital certificates. In addition to allowing us to identify ourselves in person, it also allows for identification using online platforms, as well as digitally signing legally enforceable documents. RENIEC also issues digital certificates for both individuals and legal entities.
- While this initiative was rolled out several years ago, RENIEC is still implementing the Electronic National Identity Card (DNle) Mass Use Plan for the 2019-2021 period.³⁶
- **Citizens' Portal:** This tool is only for citizens who have a DNle, and allows them to perform a number of tasks, such as registering births or deaths, finding out who has searched for a person's personal information in the RENIEC system, obtaining a certified copy of a birth, marriage, or death certificate, etc.³⁷
- **RENIEC Móvil Facial:** RENIEC has an app available through Google Play that provides users with authentication services via facial biometrics. This app can be used to make changes to their DNI, search for information on this document, or other processes.³⁸
- **RENIEC Bio Facial:** Allows users to renew or update information such as their photograph or home address on their DNI or DNle entirely online, effective almost immediately. This app can also be used for identity verification purposes as part of certain paperwork processes.³⁹
- **ID Peru:** This app can be used to read fingerprints for identity verification purposes. It operates using the National Authentication Platform.

4

Currency and Exchange Rate

The Sol has been the official currency of legal tender in Peru since 1991. In December 2015, the currency unit acquired its current name, changing from "Nuevo Sol" to simply "Sol."

In terms of commercial use, the United States Dollar ("Dollar") continues to be widely used in the Peruvian market, so much so that it is possible to buy goods or pay for services using this foreign currency.

a. Currency Stability of the Sol

The Banco Central de Reserva del Perú (BCRP⁴⁰) is in charge of the currency stability of the Sol, as well as the design and implementation of national monetary policy. This policy is currently based on a target inflation range of 1% to 3%. Between 2002 and the end of September 2021, expected inflation remained within that range for 195 months, or 83% of the time.⁴¹

Interannual inflation increased from 4.95% in August 2021 to 5.23% in September 2021⁴². In comparison, the average calculated as of December 2020 was 1.97%.⁴³

36 RENIEC. *Plan de Masificación del Documento Nacional de Identidad Electrónico (DNle) para el periodo 2019-2021*. Head Office Resolution (Resolución Jefatural) 000221-2019/JNAC/ RENIEC.

37 Hiperderecho. *Identidad Digital en Perú: DNI electrónico y plataformas*, 2021.

38 Hiperderecho. *Análisis de la plataforma e infraestructura de Identidad Digital de RENIEC*, 2021.

39 Hiperderecho. *Identidad Digital en Perú: DNI electrónico y plataformas*, 2021.

40 Please note that the acronym is in Spanish.

41 Banco Central de Reserva del Perú (BCRP). *Reporte de Inflación*, September 2021

42 Banco Central de Reserva del Perú. *Notas de Estudio del BCRP. Inflación*, September 2021

43 Banco Central de Reserva del Perú. *Notas de Estudio del BCRP. Inflación*, September 2021

b. Dollarization in Peru

As noted above, it is possible to find providers of goods or services in Peru who accept the Dollar as a form of payment. Examples include the markets for automobiles, technology, real estate (sale or lease) and companies in the financial system that offer loans in Dollars. There are also many individuals and legal entities who hold some part of their savings in this currency.

One of the causes of dollarization in Peru was the hyperinflation experienced in the late twentieth century by the previous currency of legal tender, the Inti millón. In response to this situation, the use of the Dollar became widespread to ensure that savings or liquid assets were reasonably able to maintain their value over time. Remittances from abroad also played a role in the dollarization process.

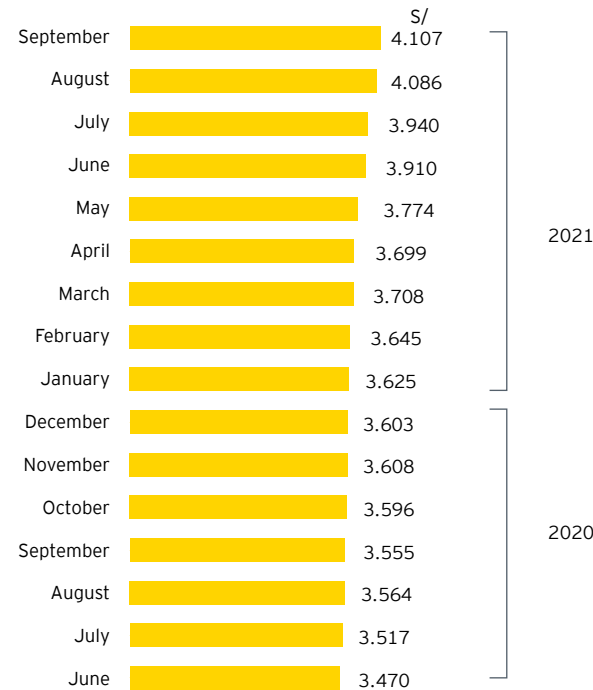
Today, dollarization remains present in Peru, which has led to a particular focus on the evolution of the exchange rate and foreign exchange risk.



c. Evolution of the Exchange Rate

According to figures from the BCRP, the monthly average exchange rate between the Sol and the Dollar has evolved as follows:

Recent evolution of the exchange rate



Source: Central Reserve Bank of Peru (BCRP)

d. FinTech Alternatives for Currency Exchange

One of the new alternatives on offer in the Peruvian market for exchanging Soles to Dollars and vice versa is the use of FinTech platforms. These platforms offer an exchange rate with the advantage that transactions can be performed entirely online, unlike physical exchange offices.

These new virtual currency exchange platforms are regulated by the SBS and have been establishing alliances with traditional banking actors in the Peruvian market include the following:

Rextie:

USD 2 billion

The first digital foreign exchange platform registered with the SBS, with over 2 billion Dollars traded with its clients.⁴⁴

Kambista:

USD 1 billion

Over USD 1 billion exchanged in more than 822,000 transactions performed, with an alliance established with Banco Internacional del Perú - Interbank.⁴⁵

Cocos y Lucas:

PEN 3,6 billion

This is the currency exchange app of Banco de Crédito del Perú (BCP⁴⁶) with over PEN 3.6 billion exchanged and over 160,000 transactions performed.⁴⁷

As we can see, the exchange of currencies using FinTech or traditional banking has been positioning itself appropriately in the Peruvian market. The social distancing measures required to fight the COVID-19 pandemic have driven the growth of demand for currency exchange using mobile devices.

5

Payment Systems and Agreements

While many activities were brought to a halt due to the public health measures and lockdown orders to fight COVID-19, the payment chain has not experienced any interruptions.

COVID-19 Scenario



Digital payments have increased much faster in Peru than during the pre-COVID-19 scenario, so much so that the country is now one of the leaders in the growth of volume processed via digital payment means, ahead of Colombia and Chile.⁴⁸

Overview of Payment Systems in Peru

Payment systems are classified into “high-value” and “low-value” categories.

⁴⁴ Information taken from the Rextie website on October 25, 2021. <http://www.rextie.com>

⁴⁵ Information taken from the Kambista website on October 25, 2021. <http://www.kambista.com>

⁴⁶ Please note that the acronym is in Spanish.

⁴⁷ Information taken from the Cocos y Lucas website on October 25, 2021. <http://www.cocosylucasbc.com>

⁴⁸ “El Peruano” Official Gazette. *Perú lidera crecimiento de pagos digitales en América Latina, 2021.*

a. High-Value Payment Systems

1. Real-Time Gross Settlement (LBTR⁴⁹) System:

This system is managed by the BCRP, and mainly includes high-value transactions such as interbank loans, interbank transfers by banks or their clients, and foreign currency purchase transactions, which are settled one-by-one, in real time.

In the twelve months prior to March 2021, there was a 50% reduction in value and 28% reduction in the number of participants' transactions performed on their own behalf, while client transactions fell by 11% in value and 7% in number. The monthly evolution shows that client transactions have been recovering, unlike the banks' own transactions, which remain low due to the decline in foreign currency purchases and sales, interbank loans in local currency, and other transfers among the system's participants, in a scenario marked by greater liquidity in the financial system⁵⁰. A series of new developments have been introduced to the system:

- ▶ Support is being provided for the upgrading of technological platform of the Electronic Clearinghouse (CCE⁵¹) an exchange and clearing services company (ESEC⁵²) owned by the majority of the banks operating in Peru.
- ▶ An application has been programmed to facilitate immediate interbank transfer services.

In 2021, the BCRP stated that it is currently evaluating the possibility of providing immediate retail payments through the LBRT System.

2. Multibank Securities Settlement (SLMV⁵³) System

This is a funds transfer system through which the Central Securities Depository and Clearing House, or CAVALI⁵⁴, in its capacity as a securities clearing and settlement institution, settles payment obligations arising from the trading of securities on the BVL stock exchange and transactions involving government bonds. For this purpose, it uses the LBRT System via accounts held in the BCRP.

Unlike the LBRT System, the MSS System has continued to grow throughout the COVID-19 pandemic, due to an increase in transactions reported on the BVL stock exchange. These transactions include the sale of treasury bonds by private pension fund management companies to offset the withdrawal of funds during the first and third quarters of 2020, according to the BCRP⁵⁵.



⁴⁹ Please note that the acronym is in Spanish.

⁵⁰ BCRP. *Reporte de estabilidad financiera*, May 2021.

⁵¹ Please note that the acronym is in Spanish.

⁵² Please note that the acronym is in Spanish.

⁵³ Please note that the acronym is in Spanish.

⁵⁴ Please note that the acronym is in Spanish.

⁵⁵ BCRP. *Reporte de estabilidad financiera*, 2020.

b. Low-Value Payment Systems

1. Payment, Clearing, and Settlement System for Checks and Other Payment Instruments, Managed by the CCE

The CCE is in charge of electronically clearing low-value payments, such as checks and wire transfers, that are originated by economic agents and channeled into the system by participating financial institutions.

Except for check transactions, the CCE transactions have experienced immense growth. Immediate transfers were the payment instrument that exhibited the most growth during the pandemic. In the twelve months prior to March 2021, these transactions grew by 142% in value and 269% in number. Monthly trends show a fast pace of growth that has continued into this year.⁵⁶

In March 2021, the CCE implemented the Vocalink technological platform for its check and wire transfer clearance services.⁵⁷

2. Digital Money Payment Agreement (APDE⁵⁸)

The APDE is the set of agreements or procedures for processing and clearing digital money transfer orders, which are regulated by the BCRP and managed by Pagos Digitales Peruanos S.A. (PDP) with the participation of financial system institutions, including digital money issuers and mobile operators.

In the twelve months prior to March 2021, the value of payments and transfers made with the Bim app fell by 26%, but their number rose by 11%. In monthly terms, there has been an

increase in the value and number of payments and transfers, as well as cash-ins. As of March 2021, there were over 1.3 million users, representing an increase of 92% over March 2020, thanks in large part to the payment of government subsidies.⁵⁹



To learn more about the digital wallets and how they are used, click the link below:

3. Intrabank Transfers

Intrabank transfers are transfers performed between agents with accounts in the same financial institution. They have been widely used by clients during the lockdown implemented to fight COVID-19.

One interesting point to note is that 92% of intrabank transfers are being made via remote channels, such as the internet, mobile banking, and digital wallets.⁶⁰

⁵⁶ BCRP. *Reporte de estabilidad financiera*, May 2021

⁵⁷ BCRP. *Reporte de estabilidad financiera*, May 2021

⁵⁸ Please note that the acronym is in Spanish.

⁵⁹ BCRP. *Reporte de estabilidad financiera*, May 2021

⁶⁰ BCRP. *Reporte de estabilidad financiera*, May 2021

4. Payment Cards

In the twelve months prior to March 2021, payments using debit cards grew rapidly, while credit card payments are in the process of recovering. The public has been using debit cards more, with the value of transactions growing by 29% and the number rising by 3%, while the value of payments with credit cards declined by 36% and their number by 40% during the same period under analysis, partly because many cards were cancelled due to missed payments. Based on a monthly evaluation, we can see that, following the steep drop at the beginning of the pandemic, payments using credit cards have been recovering. Broken down by payment channel type, remote purchases (e-commerce) continue to gain in the share of card payments, while in-person payments have suffered, partly due to the lockdown during COVID-19.⁶¹

In Peru, there has been a multiple acquisition system in place since January 2020. This has led to greater competition for acquirers, as reported by the BCRP in May 2021, with benefits focusing on variables such as fees, security, efficiency, and availability of funds, as well as the fact that exchange rates are now determined by the card brands themselves, as in other countries.

5. BCRP Securities Settlement System (SLV-BCRP⁶²)

This system is used to settle those transactions, in compliance with their purpose and functions, performed by the BCRP with other securities when such transactions are not settled in other systems.

In 2019, the Cliente Web CDVAL app was launched, allowing participants to automatically settle orders for the purchase and sale of BCRP securities, among others.⁶³

6. QR Code Payment Services:

In response to the growth in the use of QR codes to make digital payments in Peru, the BCRP published regulations on QR code payment services. These regulations establish a consolidated standard for payments with QR codes, as well as general guidelines to foster efficiency, security, interoperability, and transparency of information in digital payments. To make a purchase using QR codes, clients must have a digital wallet, which is a mobile app that is installed on one's telephone that makes it possible to use the information contained in the QR code to then order a payment via the digital wallet, utilizing funds in one of the associated accounts or cards.

Card acquirers (Niubiz and Izipay) have also implemented QR codes, among other solutions, for merchant payment management so that a payment can be generated by scanning a QR code using an app, thus providing access to this service by new users with digital wallets in the market. Bim has signed an agreement with Izipay and Niubiz so that Bim's clients can pay at POS using QR codes or the new Bim app.⁶⁴



⁶¹ BCRP. Reporte de estabilidad financiera, May 2021

⁶² Please note that the acronym is in Spanish.

⁶³ BCRP. Reporte de estabilidad financiera, 2020.

⁶⁴ BCRP. Reporte de estabilidad financiera, 2021.

6

Banking Penetration and Financial Inclusion

a. What is financial inclusion?

Financial inclusion is defined by the BCRP as “access to and use of high-quality financial services by all segments of the public”.⁶⁵ Access is understood as the possibility of finding access points and infrastructure and a high-quality offer in the service market. Use is understood as the frequency and intensity with which these services are utilized, while the quality of financial services means that their characteristics must meet users’ needs.

Accordingly, the financial inclusion process involves not just the possibility of accessing these types of services, but that all segments of the public effectively make continuous and prudent use of them. As we will explain further below, the adoption of financial services offers a number of benefits to society.

According to the SBS, financial inclusion must be used as a means for improving the public’s wellbeing, allowing them to do the following, among other things:

- Securely save surplus capital so users can make future investments.
- Access financing for the performance of income-generating activities, for both individuals and companies.
- Strengthen the ability to withstand losses by taking out insurance.
- Access liquid cash to cover specific expenses.
- Increase business productivity and profitability through payment transaction facilities.

b. National Financial Inclusion Strategy and Policy

In 2015, the Peruvian government developed its National Financial Inclusion Strategy, in recognition of the fact that financial inclusion has an impact on social inclusion and economic development. This policy is based on access to and the use and quality of financial services through the following lines of action:

- Payments, including digital payment services, government payments, and remittances.
- Savings, which includes simplified basic accounts, pensions, etc.
- Financing, focused on microcredits, micro- and small enterprise loans, agricultural loans, and other financial instruments.
- Insurance, including micro-insurance, agricultural insurance, and health, life, and pension insurance.
- Vulnerable groups, focused on the implementation of actions and measures based on their needs.
- Financial education, focused on the development of financial capacities among all segments of the population to ensure appropriate decision-making.

⁶⁵ Banco Central de Reserva del Perú (BCRP). *Inclusión Financiera*.

- ▶ Consumer protection, which involves the protection of their rights through transparent information and adequate dispute settlement systems.

In mid-2019, the National Financial Inclusion Policy was published. This policy, contained in Executive Decree 255-2019-EF, established the following priority objectives:

- ▶ Foster greater trust in the financial system among all segments of the population.
- ▶ Ensure a sufficient and adequate offer of financial services that meet the public's needs.
- ▶ Mitigate friction in the functioning of the market.
- ▶ Develop telecommunications infrastructure and digital platforms to increase the coverage and use of financial services.
- ▶ Strengthen mechanisms to coordinate institutional efforts.

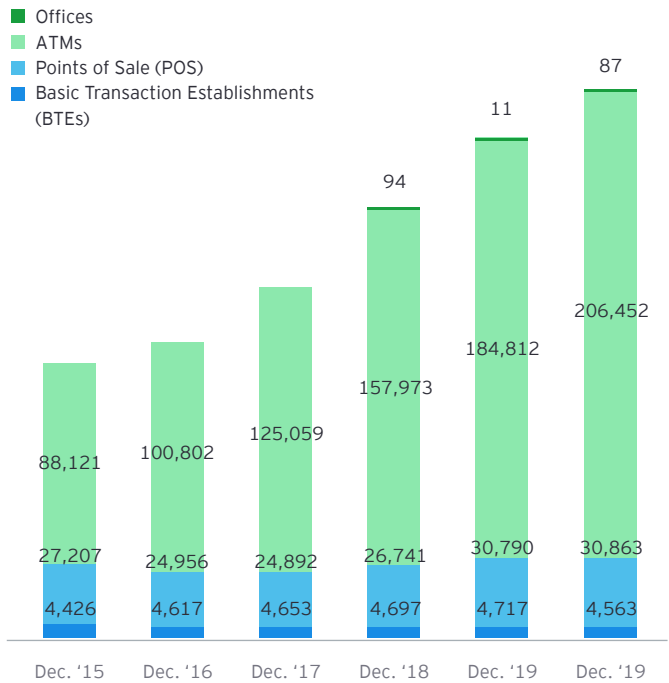


c. Current State of Financial Inclusion in Peru

1. Infrastructure

In recent years, the indicators on the financial inclusion process prepared by the SBS have shown a positive trend in the increase of financial infrastructure.

Number of Offices, ATMs, Points of Sale, and Basic Transaction Establishments (BTEs)



Source: Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS). *Reporte de Indicadores de Inclusión Financiera de los Sistemas Financieros*.

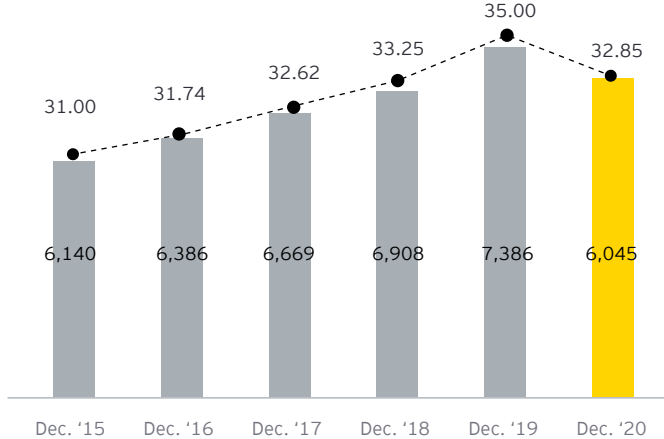
As we can see, although there was a slight drop in the number of offices of financial institutions in the system between December 2019 and December 2020, there has been a constant increase in the number of automatic teller machines (ATMs) and points of sale (POSS). However, there is a marked disparity in their distribution by region in Peru, in some cases reflecting their demographics:

- ▶ The national average number of customer service locations for every 100,000 adult inhabitants per department is 1,128: 1,152 in Lima and Callao, and 887 in all other provinces.⁶⁶
- ▶ The national average number of customer service channels per 1,000 square kilometers is 173: 2,590 in Lima and Callao, and 106 in all other provinces.⁶⁷

2. Infrastructure Use

Beginning with the number of individual debtors with direct loans, the SBS report shows the following results.

Number of Debtors and Number of Debtors as a Percentage of the Adult Population

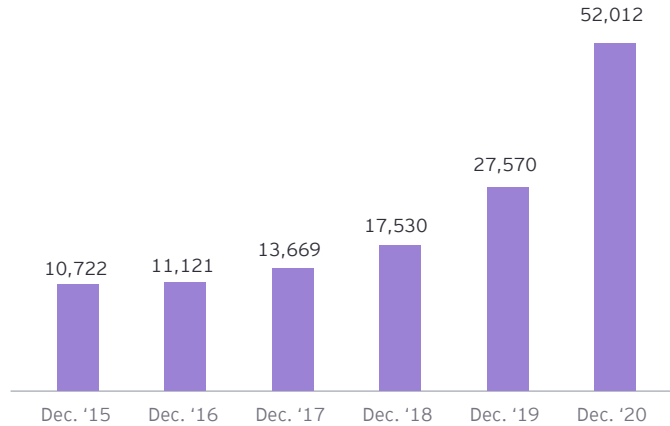


Source: Superintendency of Banking, Insurance, and Private Pension Fund Management Companies (SBS). *Reporte de Indicadores de Inclusión Financiera de los Sistemas Financiero, de Seguros y de Pensiones, December 2020.*

As we can see, between December 2015 and December 2019, the number of debtors increased on a constant basis, while between December 2019 and December 2020, there was a reduction of 2.15%.

It is also important to note the number of online banking transactions:

Number of Online Banking Transactions (in Thousands)



Source: Superintendency of Banking, Insurance, and Private Pension Fund Management Companies (SBS). *Reporte de Indicadores de Inclusión Financiera de los Sistemas Financiero, de Seguros y de Pensiones, December 2020.*

According to the reporting on this indicator, we can see that there was a significant increase of more than 88% in the number of online banking transactions between December 2019 and December 2020. These transactions include online payments, corporate software, client software, telephone banking, and mobile banking. The amount of these transactions has also increased, from PEN 216.103 billion in December 2019 to PEN 285.039 billion in December 2020.⁶⁸

3. The DNI Account

As part of the prioritized objectives and guidelines of the National Financial Inclusion Policy, the Peruvian Congress passed Law 31120 - the Act Regulating DNI Accounts. This law establishes the applicable regulatory framework and details on the characteristics of such accounts and how to open them.

⁶⁶ Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS). *Reporte de Indicadores de Inclusión Financiera de los Sistemas Financiero, de Seguros y de Pensiones, December 2020.*

⁶⁷ Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS). *Reporte de Indicadores de Inclusión Financiera de los Sistemas Financiero, de Seguros y de Pensiones, December 2020.*

⁶⁸ Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS). *Reporte de Indicadores de Inclusión Financiera de los Sistemas Financiero, de Seguros y de Pensiones, December 2020.*

The DNI Account is a savings account that is automatically and compulsorily opened in the Banco de la Nación, which is in charge of managing them. Uses include (among other things) payments, refunds, or transfers, subsidies, economic services or aid provided or paid out by the government to the account owner.

Executive Decree 184-2021-MEF approved the regulations on Law 31120, including the procedures required to open, operate and close DNI Accounts, as well as the exchange of information on such accounts.

d. The Impact of COVID-19 on Financial Inclusion and Banking Penetration

In response to the worldwide COVID-19 pandemic, the demand for digital services has risen. Channels offered by financial system institutions for contracting services with them have evolved from largely in-person procedures to the adoption of telematic or digital means. These changes have focused on improving the quality of their services and response to market needs.

One of the most important points here is the boost given to digital solutions in the process of accessing the financial system. According to the SBS, as of August 2021, financial system institutions had reported 204 new products and significant changes to the Superintendency, 41% of which pertain to the development of digital services; while in 2020, there were a total of 315 new products, 37% of which were associated with the development of digital services.

On the other hand, it is worth highlighting the role played by digital wallets and FinTech companies in the financial inclusion process, enabling a segment of the public to perform transactions without the need for a bank account and helping to forge a greater financial culture. In response, the SBS increased the limits on transactions performed using digital wallets, in what may be seen as an acknowledgment of their impact in Peru.



7

FinTech

What is FinTech?

FinTech (finance + technology) refers to the sector engaged in providing or supplementing financial services with an emphasis on the use of digital technologies.

Industry Overview in Peru

The development of the FinTech industry in Peru has remained constant. According to a recent study by the credit bureau Equifax and the innovation center Emprande UP, there are currently 171 FinTech companies operating in the country.

171 FinTech startups in Peru

a. FinTech Verticals

FinTech companies operating in Peru are classified into the following verticals, according to the study by Equifax and Emprande UP:

Currency Exchanges

Offer services associated with the exchange of currencies via digital means.

Crowdfunding

Participatory funding platforms, whether of a financial (debt and equity) or non-financial (donations and rewards) nature, that connect projects or initiatives with possible investors or contributors.

Business Financial Management

Engaged in the development of financial services for companies.

Personal Financial Management

Provide personal financial planning services.

Payment/Wallets

Platforms that facilitate the sending and receipt of money, whether domestically or internationally, to make payments or transfers between accounts.

Crypto

Platforms that facilitate the sending and receipt of cryptocurrencies, whether domestically or internationally, to make payments or transfers between accounts.

Loans

Offer credit with a better user experience and greater availability, at a lower cost, using to technology.

Credit Score

Manage databases for credit evaluations.

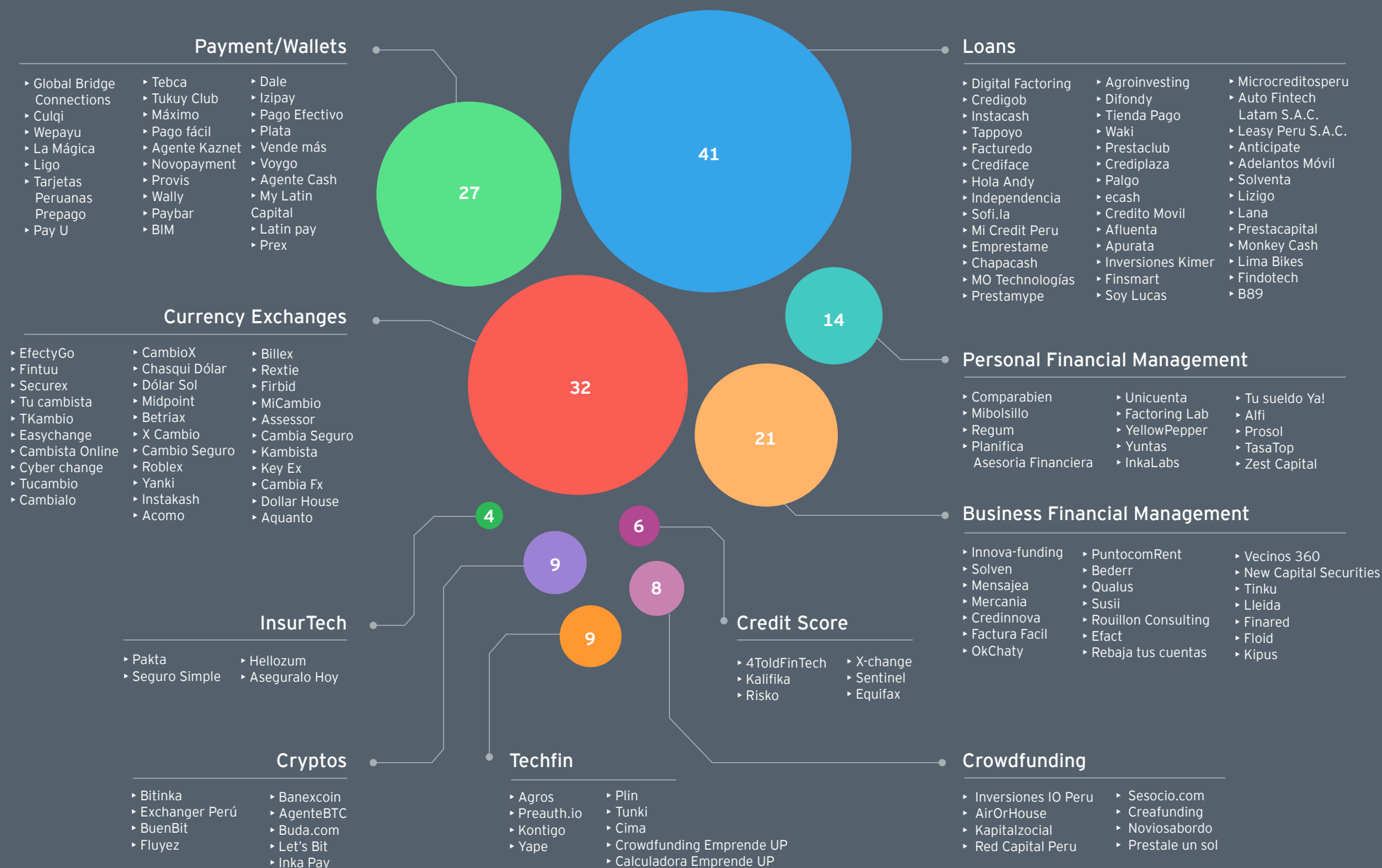
InsurTech

Digital insurance solutions using technology.

Techfin

FinTech solutions that form part of a corporate group.

b. Radar FinTech

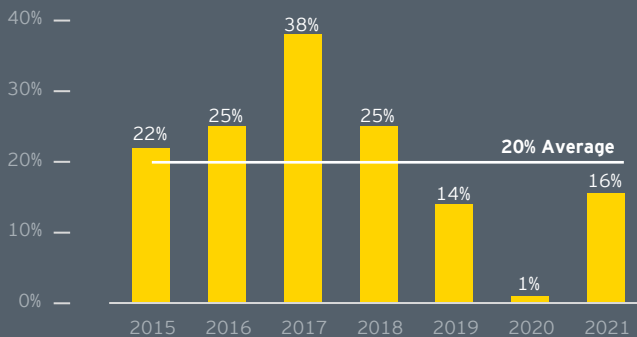


The list of companies shown is for reference purposes only. It has not been verified that all of these companies are operating as of this date.

C. FinTech Growth

As of the close of 2014, there were 50 FinTech companies in Peru. At present, that number has grown by over 300%. In the last seven years, the FinTech sector's average annual growth was 20%.

Growth in the Number of FinTech Companies in Peru



Source: Equifax Credit Bureau, Empepre UP Innovation Center, September 2021.

Key Numbers

41%

of new products and significant changes by financial system institutions reported as of August 2021 are related to the development of **digital financial services** according to the SBS.

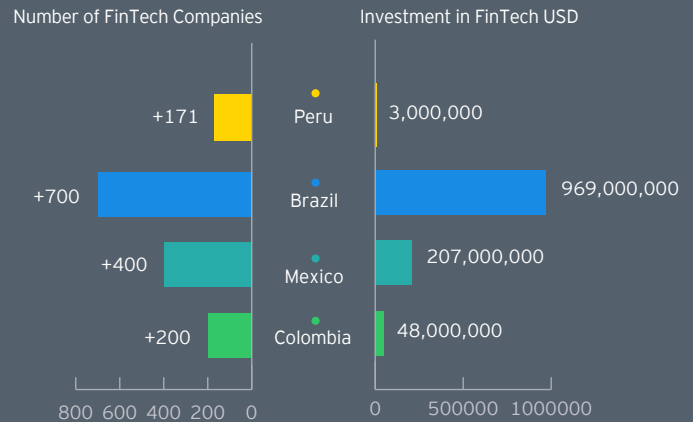
45.2%

of FinTech companies are led by **women** in Peru, the second highest in Latin America, according to the most recent study by the IDB and Finnovista.⁶⁹

95%

of all investment in FinTech in Latin America in 1Q2021 was made in Brazil, Mexico, and Colombia, according to data from Latam FinTech Hub.

Investments in FinTech 2021⁷⁰



⁶⁹ RPP Noticias. Perú ocupa el segundo lugar en Fintechs lideradas por mujeres en la Región, 2020.

⁷⁰ Latam FinTech Hub.

d. FinTech Ranking - Latin America and the Caribbean⁷¹

In terms of the growth of the FinTech sector in the largest countries in Latin America and the Caribbean, the most recent Global FinTech Ranking situated Brazil, Uruguay, and Mexico in the first three slots of the regional ranking.

Country	LAC Ranking	Worldwide Ranking
Brazil	1	14
Uruguay	2	17
Mexico	3	32
Colombia	4	45
Chile	5	47
Argentina	6	49
Peru	7	62
Belize	8	67
Ecuador	9	69
Venezuela	10	82



⁷¹ Findexable, Mambu. 2021 Global FinTech Rankings.

Perspectives on the Current and Future Development of the FinTech Ecosystem in Peru

Interview with an expert



Roberto Vargas Buendía
President of the Peruvian
FinTech Association



Listen to the
podcast here
(in Spanish)

Excerpt from the interview

1

The Evolution of the FinTech Ecosystem

Roberto highlights the positive impact that the pandemic has had on the FinTech industry. “We expect to close 2021 with a total transaction level of around USD 20 billion for FinTech companies,” he says.

Indeed, the pandemic has driven variables in the economy that have led to an enthusiastic reception of the solutions provided by FinTech companies, thus boosting the growth of certain verticals. The common denominator across the Region, according to Roberto, is the growth of the payment industry thanks to alliances with e-commerce and alignment with the big regional players. However, Roberto tells us that other verticals, such as currency exchange, have made big leaps and struck partnerships with competitive offers. He foresees the same thing happening with the development of factoring and crowdfunding in the short term, given the recent regulations implemented and the current conjuncture.

Roberto does not limit his growth predictions to those segments only. He explains the rapid progress made by financial inclusion and education FinTech companies, as well as increasingly popular initiatives in the world of blockchain, crypto, and exchange. Roberto sets forth his vision for the FinTech industry

over the next five to ten years, predicting a significant co-creation capacity and rapid advances thanks to collaboration and strategic cooperation among different stakeholders. By way of example, he tells us about a success story in Cajamarca. Roberto tells us that the FinTech Association is predicting a transaction volume of USD 40 billion for 2022.

2

Regulatory Matters

There has unquestionably been a great deal of regulatory activity in the FinTech world in Peru this year, and Roberto was happy to offer his thoughts on the matter. He highlighted the regulation of crowdfunding and his opinion on the regulatory process for the sector. Specifically, he stressed the importance of addressing not only procedural and administrative aspects when establishing regulations, but also the costs that will be faced by market players and the deadlines imposed. Considering that not all information is predictable, he called for regulators to foster closer relations with actors to learn about their businesses in a tangible way. The variables analyzed seek to aid in the ongoing development of the regulator's mindset.

He also noted that the recent laws on the regulatory sandbox are a major step forward for FinTech opportunities, which are constantly making progress. It is for exactly this reason that he stressed the importance of updating standards and norms as technology and the market evolve, especially given some of the clarifications he feels should be incorporated into the regulations. He also stated that it is critical for regulatory efforts to bear in mind that we are not living through a normal situation; we are in the middle of a pandemic, striving for economic recovery. This requires work for the development, competitiveness, and promotion of investment in the industry.

3

Outlook on Alliances in the Ecosystem

Roberto explains to us how the outlook on local and regional alliances with FinTech companies has been developing, based on the monitoring and educational role that the FinTech Association has assumed. He tells us that conditions are currently ripe to create different types of relationships with FinTech companies in Peru, under different schema, citing certain examples between local or international banks and Peruvian and foreign FinTech companies.



FinTech Businesses - Peru

- | | | | |
|---|---|---|--------------------------------------|
| 1 | Incorporation of Unregulated Companies | 4 | Business Alliances |
| 2 | Incorporation of Regulated Companies | 5 | Open Banking and Open Finance |
| 3 | Incorporation of Crowdfunding Companies | 6 | FinTech Investments: Venture Capital |

How to Set Up FinTech Businesses in Peru?

Before starting to engage in FinTech business in Peru, it is first necessary to evaluate and define the type of FinTech business, the form of investment, the obligations to be assumed, and the benefits received from the Peruvian government. Below are the main options based on the variables explained thus far. Depending on the type of FinTech business, it is possible to incorporate an unregulated company or request authorization for regulated operations under the competent regulatory body.

Currently, collaboration is on the rise among regulated entities and FinTech companies. Business alliances have become one way to speed up the entry of FinTech businesses into the Peruvian market. As such, we will also present business alliances, particularly the development of open banking and its relationship with open finance. Lastly, given the Peruvian government's interest in attracting foreign and local investment, we will comment on the main issues to be borne in mind when analyzing FinTech investments.

1

Incorporation of Unregulated Companies

The corporate structures that are regulated under Peruvian law fulfill different objectives and purposes, which depend on the needs of the parties incorporating those companies. The most widely used corporate structures include the following:

a. Joint Stock Companies (Sociedades Anónimas)

At least two shareholders are required to establish a joint stock company. The initial capital stock - whether paid in local or foreign currency - must be deposited in a local financial institution.

There is no minimum capital stock amount required under the Business Corporations Act (Ley General de Sociedades, or "LGS⁷²"). However, local financial institutions often ask for a minimum amount of PEN 1,000 (approximately USD 250) for the initial capital stock deposit.

A joint-stock company's capital stock is represented by shares, which may, in turn, be represented by physical certificates or book entries.

⁷² Please note that the acronym is in Spanish.

Characteristics:**Name**

Must include the indication “Sociedad Anónima”, also known in its abbreviated form as “S.A.”

Limited Liability

Shareholder liability is limited to the amount of their capital contributions. Shareholders are not personally liable for corporate debts. The company's net worth itself is the guarantee offered to creditors. If this is insufficient, shareholders are not liable.

Governing Bodies

Shareholders' Meeting, Board of Directors, and Management

Shareholders' Meetings

May be held in person or remotely. Remote shareholders' meetings shall be possible provided the company's bylaws so allow and/or there is no legal prohibition against it, and shall be held via electronic or other means that make it possible to guarantee the members' identification, communication, participation, the right to speak and vote, and the correct performance thereof.

Legal Reserve

Consists of a minimum of 10% of the distributable profits for each fiscal year, after income tax, until reaching an amount equal to one-fifth (1/5th) of the capital stock.

Share Transfers

Shares are freely transferable, unless otherwise established in the bylaws.

Continuity

The death, illness, insolvency, withdrawal and/or resignation of shareholders does not entail the dissolution and winding-up of the company.

A joint-stock company may be regular, or adopt one of the

following two particular forms. The manner in which they differ from a regular joint-stock company are explained below.

1. Closely-Held Corporation (Sociedad Anónima Cerrada)

Characteristics:**Name**

Must include the indication “Sociedad Anónima Cerrada”, also known in its abbreviated form as “S.A.C.”

A Closely-Held Company must have at least two (2) and no more than twenty (20) shareholders. The shares cannot be listed in the Public Stock Exchange Registry (RPMV) kept by the Peruvian Superintendency of the Securities Market (SMV).

Governing Bodies

Shareholders' Meeting and Management. The Board of Directors is optional.

Share Transfers

Limitation on the free transferability of shares. Shareholders have preemptive rights in the event of a proposal to transfer shares to another shareholder or a third party. This right may be eliminated by virtue of the bylaws. The bylaws may also establish a preemptive right in favor of the Company itself.

2. Public Corporation (Sociedad Anónima Abierta)

This corporate structure applies to companies with a large number of shareholders (over 750) those for which an initial public offering has been made for shares or convertible bonds, or those corporations in which over 35% of the capital stock belongs to 175 or more shareholders. All of their shares must be registered in the Public Stock Exchange Registry (RPMV) kept by the Peruvian Superintendency of the Securities Market (SMV).

Characteristics:**Name**

Must include the indication “Sociedad Anónima Abierta” also known in its abbreviated form as “S.A.A.”

Governing Body

Shareholders’ Meeting, Board of Directors and Management.

Oversight

Public corporations are subject to the supervision of the Peruvian Superintendency of the Securities Market (SMV).

Share Transfers

Freely transferable. No restrictions or limitations whatsoever are permitted. The inclusion of clauses in the bylaws limiting the transfer of shares is prohibited.

b. Limited Liability Company Company (Sociedad Comercial de Responsabilidad Limitada)

Limited liability companies are organized with at least two (2) and no more than twenty (20) members. The requirements for incorporation are the same as for all other types of companies. Their capital stock is divided into equal, accumulative and indivisible ownership interests.

Characteristics:**Limited Liability**

Members are not personally liable for corporate obligations.

Governing Body

Members’ Meeting and Management.

Members’ Meetings

May be held in person or remotely. Remote members’ meetings shall be possible provided the company’s bylaws so allow and/or there is no legal prohibition against it, and shall be held via electronic or other means that make it possible to guarantee the members’ identification, communication, participation, the right to speak and vote, and the correct performance thereof.

Legal Reserve

No legal reserve obligations.

Share Transfers

The transfer of ownership interests to third parties is subject to preemptive rights, and must be performed by virtue of a notarially recorded instrument that must be registered in the Public Records Office. Unless otherwise established in the bylaws, if the period of thirty (30) days established in the Business Corporations Act (LGS) expires and none of the members has used their preemptive right, the company itself may acquire the ownership interests offered. If the Members’ Meeting decides not to purchase them, the offering partner shall be free to transfer the ownership interests to third parties.



c. Simplified Closely-Held Corporation (Sociedad por Acciones Cerrada Simplificadas)

This corporate structure seeks to offer an alternative for the formalization of an individual's economic activities, in an effort to promote the productive and entrepreneurial development of micro, small, and medium-sized enterprises.

Characteristics:

Name

Must include the indication "Sociedad por Acciones Cerrada Simplificadas", also known in its abbreviated form as "S.A.C.S."

A Simplified Closely-Held Company must have at least two (2) and no more than twenty (20) shareholders, who must be individuals (natural persons).

Governing Body

Shareholders' Meeting and Management. The Board of Directors is optional.

Share Transfers

Branches are secondary establishments through which a corporation (whether Peruvian or foreign) performs activities at a location other than its domicile. Branches are not separate legal entities. The parent company is liable for the branch's obligations.

d. Branch (Sucursal)

Branches are secondary establishments through which a corporation (whether Peruvian or foreign) performs activities at a location other than its domicile. Branches are not separate legal entities. The parent company is liable for the branch's obligations.



a. Procedure of the Incorporation of Companies and Branches in Peru

I. Procedure for the Incorporation of Companies in Peru

a Incorporation of a Joint-Stock Company or Limited Liability Company

To incorporate a company in Peru, the following requirements and steps apply, after first selecting the type of company to be incorporated:

1

Search for and Reserve a Name

Optionally, those seeking to incorporate a company in Peru can search for and reserve a corporate name, in order to determine whether it matches any other names or trade names (whether complete or abbreviated) requested previously.

The search and reservation process is performed with the National Superintendency of Public Records Offices (SUNARP) either online through the gob.pe platform or in person at one of the offices of the SUNARP.

2

Draft Deed of Incorporation (Minuta)

Draft and execute the Deed (minuta) for the incorporation of the company, which shall include the articles of incorporation and bylaws. The Deed of incorporation shall indicate whether the founding shareholders or members are individuals or legal entities, Peruvian or foreign. If a shareholder is a legal entity, it must grant a power of attorney to an individual to perform the incorporation procedure and register the power of attorney with the Public Records Office (SUNARP).

If the founding shareholder or partner is a foreign legal entity, in addition to the power of attorney mentioned above - and in order to register the power of attorney with the Public Records Office - said shareholder shall send the following to Peru: (i) a certificate of good standing; and (ii) a certificate of incumbency whereby a legal representative states that the grantor of the power of attorney has the standing, according to the bylaws and the laws in force in the country of origin, to act as the company's representative and grant powers of attorney on its behalf.

Bear in mind that powers of attorney, certificates of good standing, and certificates of incumbency issued abroad must be apostilled or legalized by the Peruvian consul in the foreign country, as applicable, and then sent to Peru. If the documents, apostilles and legalizations are issued in a language other than Spanish, they must be translated in Peru by a sworn translator appointed by the Ministry of Foreign Affairs (traductor público).

3 Capital stocks

Once the Deed of incorporation has been executed by the founding shareholders or partners, or by their representatives, where applicable, at least 25% of the par value of the shares must be subscribed and paid up, in a Peruvian banking institution.

4 Execute directors' affidavits

If the company has a board of directors, the appointed members shall execute an affidavit expressly stating that they accept the position of director. Their signatures shall be notarized by a Peruvian notary public.

If a director is foreign, the affidavit shall be apostilled or legalized by the Peruvian consul in the foreign country, as applicable, and then sent to Peru. If the affidavit is issued in a language other than Spanish, it must be translated in Peru by a sworn translator appointed by the Ministry of Foreign Affairs (traductor público juramentado).

5 Submit documents to a notary public

The agreement of incorporation, the certificate of deposit of the initial capital stock, and, where applicable, the directors' affidavits, shall be submitted to a Peruvian notary public to be made into the public deed, so that the registration of the company's incorporation in the Public Records Office can be requested. The registration procedure with the Public Records Office takes approximately two (2) weeks.

6 Obtain a Tax ID Number (RUC) from the National Superintendency of Tax Administration (SUNAT) and notarize books and records

If the notary public in charge of the procedure for the incorporation of the company has submitted the notarized documents online via the Public Records Digital Intermediation System (SID-SUNARP) SUNAT automatically assigns a Tax ID Number (RUC) at the time the incorporation is registered. It is possible to apply for a RUC via notary public, rather than the company itself, when registering an S.A., S.A.C., or S.R.L. with the Registry of Companies in and for Lima and Callao.

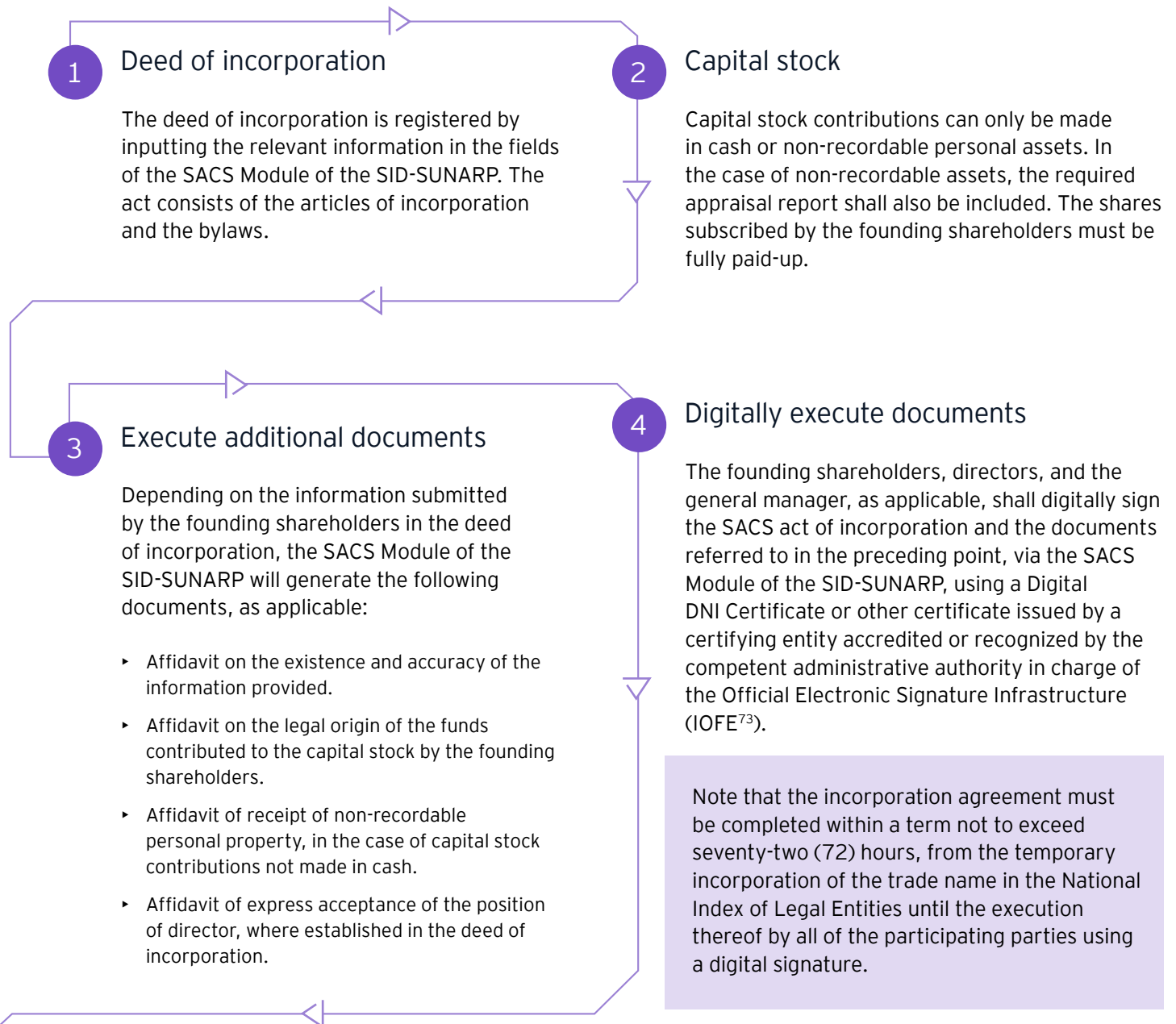
Otherwise, the company must apply for a RUC directly with the SUNAT and activate its Clave SOL (PIN). In all cases, the company shall notarize the minute books (e.g., the shareholders' meeting minute book) with a notary public.

7 Other applicable procedures after the incorporation of the company

The preceding points consist of the company's incorporation, properly speaking. However, there are other applicable formalities, such as registering payroll workers with the Ministry of Labor (MTPE), obtaining a municipal operating license, and others.

b Incorporation of a Simplified Closely-Held Corporation

To incorporate a simplified closely-held corporation, the following requirements and steps apply:



⁷³ Please note that the acronym is in Spanish.

5

Submit documents to the Public Records Office for evaluation

To register the deed of incorporation, the founding shareholders must submit (i) an application generated using the input information; and (ii) the electronic document consisting of the articles of incorporation, the bylaws, and the affidavits mentioned in Point 3, including a voucher for the deposit of cash contributions. The registration process with the Public Records Office takes one (1) day.

6

Register RUC and notarize books and records

Once the company has been registered with the Public Records Office, a RUC will be generated. Therefore, the company's legal representative must subsequently (i) obtain a Clave SOL (PIN) from the SUNAT and activate the assigned RUC; and (ii) acquire and notarize the corporate books and records required by the LGS

7

Other applicable procedures after the incorporation of the company

The preceding points consist of the company's incorporation, properly speaking. However, there are other applicable formalities, such as registering payroll workers with the Ministry of Labor (MTPE⁷⁴) obtaining a municipal operating license, and others.

II. Procedure for establishing a branch of a foreign corporation in Peru

To establish a branch of a foreign corporation in Peru, the following requirements and steps must be applied:

1

Draft an agreement for the establishment of a branch in Peru, which must be adopted by the competent body of the parent company

In addition to this branch establishment agreement, the parent company shall issue the following documents and send them to Peru: (i) certificate of good standing; and (ii) a copy of its articles of incorporation and bylaws, or the equivalent instrument in the country of origin. The branch establishment agreement, the certificate of good standing, and the copy of the articles of incorporation and bylaws shall be apostilled or notarized, as applicable, in the foreign country and then sent to Peru. If the documents and/or the certifications thereof are issued in a language other than Spanish, they must be translated in Peru by a sworn translator appointed by the Ministry of Foreign Affairs (traductor público juramentado).

2

Request the public deed

The documents referred to in Point 1 above shall be submitted to a Peruvian notary public to be put into the form of a public deed, and the registration of the branch shall be applied for with the Public Records Office. The registration process with the Public Records Office takes approximately two (2) weeks.

3

Registration in the RUC of SUNAT

Once the branch is registered with the Public Records Office, its legal representative must apply for a Tax ID Number (RUC) from SUNAT and the respective Clave Sol (PIN).

⁷⁴ Please note that the acronym is in Spanish.

2

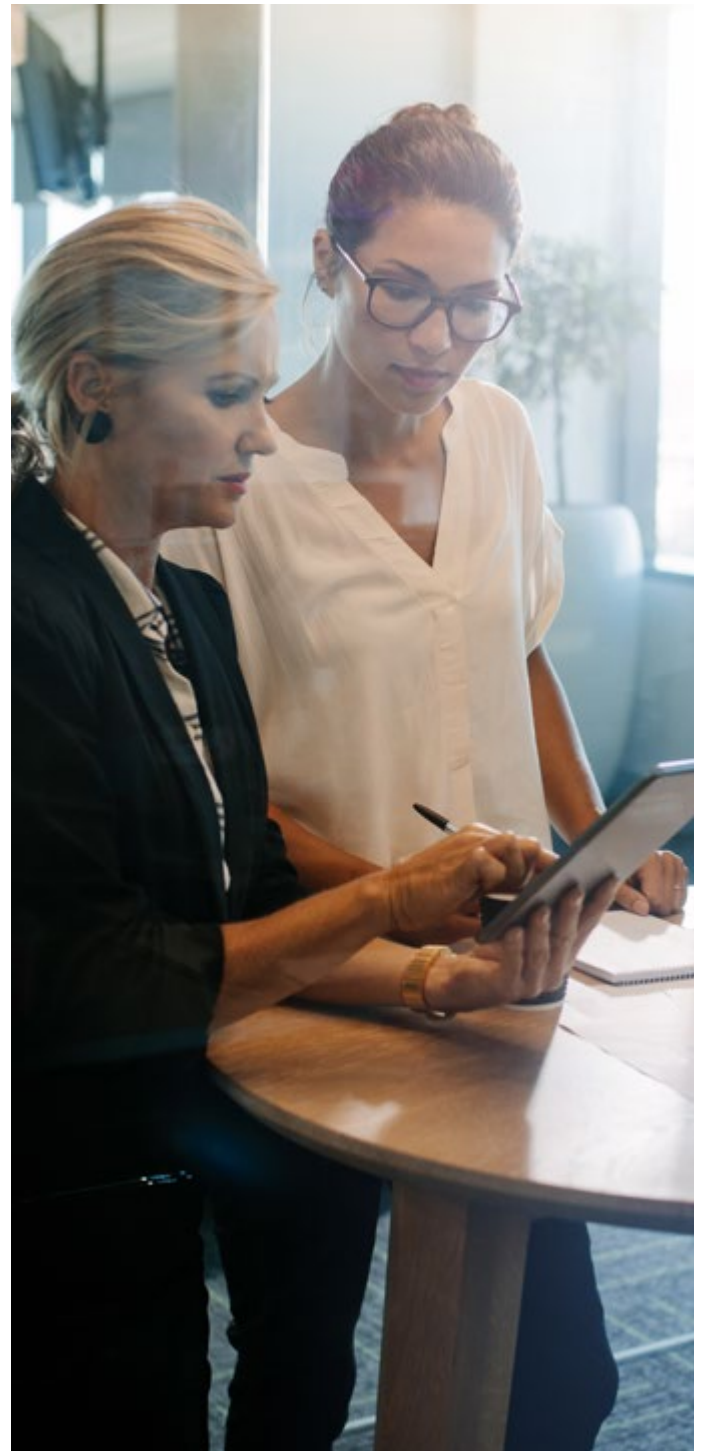
Incorporation of Regulated Companies

a. Incorporation of Companies Regulated by the SBS

In Peru, any person who seeks to perform activities restricted by law, such as financial brokerage, as established in the General Act on the Financial and Insurance Systems and the Internal Regulations of the Superintendency of Banking and Insurance - Law 26702 (the “General Act”) must first obtain the respective authorizations from the SBS for its organization and operation. The SBS is responsible for supervising, regulating, and authorizing the incorporation and operation of companies in the financial and insurance system. These companies differ, among other things, in the regulatory capital required to incorporate them and the activities in which they are permitted to engage.

A regulatory capital is a requirement for financial companies regulated by the SBS. This amount is a constant value and is updated quarterly, based on the Wholesale Price Index published each month by the INEI⁷⁵) for the entire country.

On October 5, 2021, the Circular Letter G-212-2021 was published by the SBS, updating the regulatory capital required for companies supervised by the SBS:



⁷⁵ Please note that the acronym is in Spanish.

Regulatory Capital Required for Companies Supervised by the SBS

Company Type	Company	Regulatory Capital (Soles)
Multi-Operations Companies	1. Banking companies	31,165,395
	2. Financial companies	15,672,553
	3. Municipal savings and loan entity	15,672,553
	4. Municipal personal loan entity	8,358,695
	5. Micro- and small enterprise development entities (EDPYMEs ⁷⁶)	1,416,799
	6. Savings and loan cooperatives authorized to capture resources from the public	1,416,799
	7. Rural savings and loan entity	1,416,799
Specialized Companies	1. Real estate capitalization companies	8,358,695
	2. Leasing companies	5,098,804
	3. Factoring companies	2,833,598
	4. Bonding and guarantee companies	2,833,598
	5. Trust service companies	2,833,598
	6. Mortgage administration companies	5,115,218
Investment Banks	1. Investment banks	31,165,395
Insurance Companies	1. Companies operating in a single line (general or life risks)	5,667,195
	2. Companies operating in both lines (general and life risks)	7,790,304
	3. Insurance and reinsurance companies	19,833,094
	4. Reinsurance companies	12,042,790
Supplementary and Related Services Companies	1. Bonded warehousing	5,098,804
	2. Cash transport, custody, and management companies	20,896,738
	3. Credit and/or debit card issuer companies	1,416,799
	4. E-cash issuer companies	2,833,598
	5. Money transfer companies	1,416,799

⁷⁶ Please note that the acronym is in Spanish.

General Act

The General Act includes the activities in which said companies are permitted to engage. These include the following:

Banking Company

Its main line of business consists of receiving money from the public in deposit or via any contractual method. It uses said money, its own capital, and that obtained from other financing sources to grant credit in different forms, or applies them to transactions subject to market risk.

Financial Company

Captures resources from the public, specializing in the facilitation of primary security issue placements, transactions with securities, and providing financial advice.

Micro- and Small Enterprise Development Entity (EDPYME)

These companies specialize in granting preferential funding to micro- and small enterprises.

Trust Service Companies

These companies specialize in acting as a trustee in the management of independent trust funds, or in the performance of fiduciary duties of any kind.

Leasing Company

These companies specialize in the acquisition of real and personal assets for assignment in use to an individual or legal entity, in exchange for a periodic rent payment, with the option to purchase said assets for a predetermined value.

Factoring Companies under the Scope of the General Act

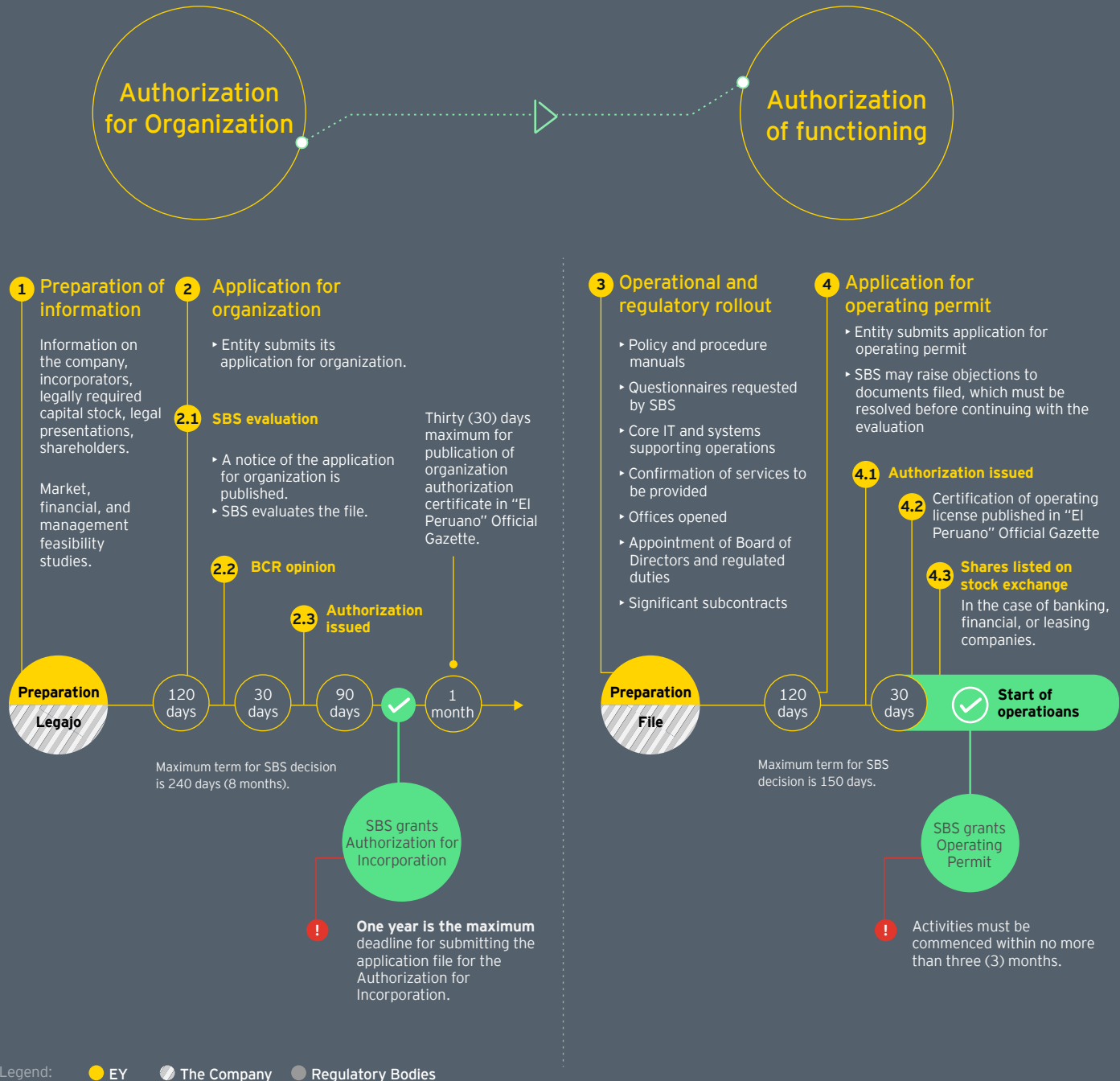
These companies specialize in the acquisition of negotiable bills, trade acceptances, debt instruments, and in general, any paper debt securities that meet the minimum criteria established by the SBS.

E-Cash Issuer Company

The primary purpose of these companies is to issue e-cash. They do not grant loans against funds received, and may only perform other transactions related to their main purpose.⁷⁷

⁷⁷ Law 29985, Section 4.1.

Incorporation Process and Reference Timeframe



Source: EY Peru. *Time periods indicated are for reference purposes only.

3

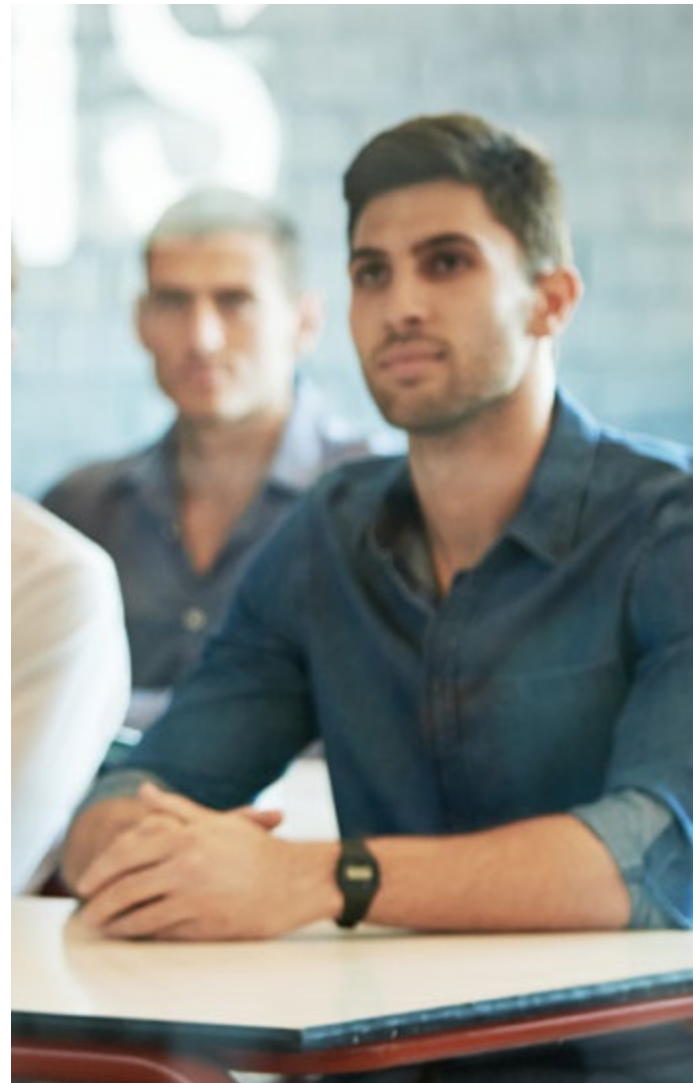
Incorporation of Crowdfunding Companies

On the other hand, anyone looking to engage in crowdfunding must request the prior authorization of the SMV, in accordance with Emergency Decree 013-2020.

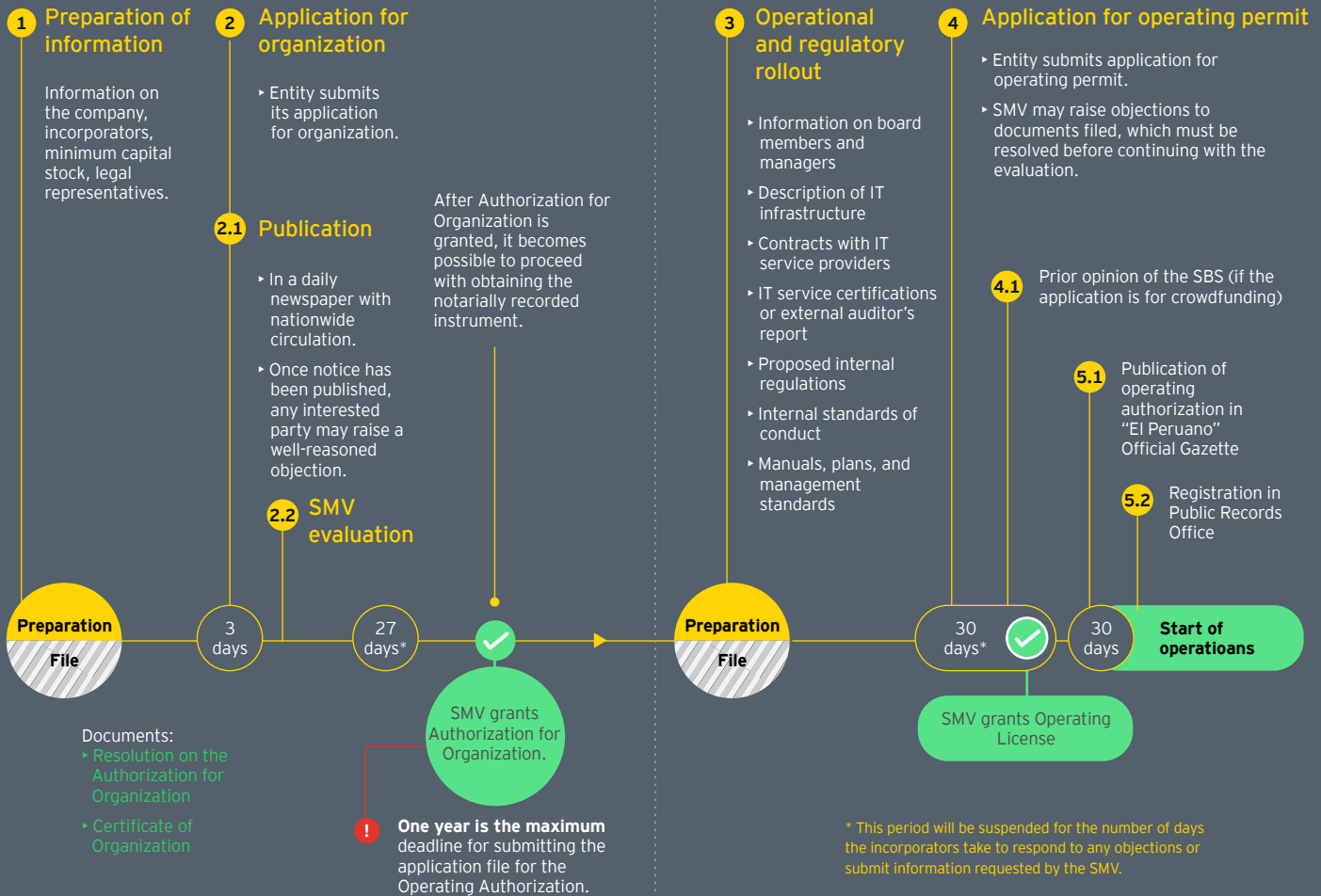
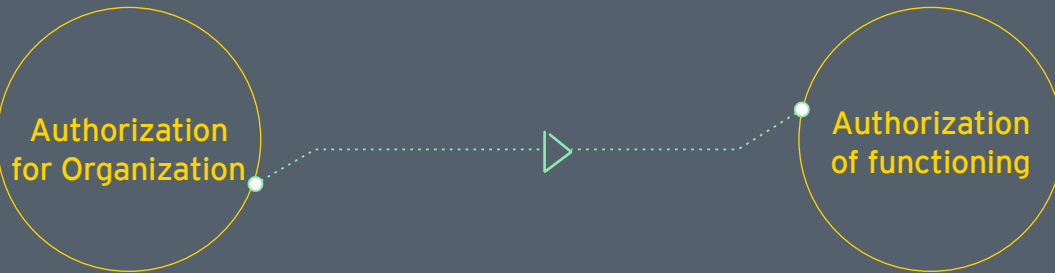
As we will expand upon further below, crowdfunding platform management companies are regulated and supervised by the SMV. The procedure for the incorporation of these companies involves requesting an Authorization to Organize, and then, once this authorization has been obtained, an Authorization to Operate, in accordance with the Crowdfunding Activities Regulations, approved by Superintendent's Resolution 045-2021-SMV/02. The main milestones and deadlines are as follows:



Regulatory Capital of
PEN 300,000



Incorporation process and reference timeframes



Legend: ● EY ● The Company ● Regulatory Bodies

Source: EY Peru. Time periods indicated are for reference purposes

4

Business Alliances

From a conceptual standpoint, one of the key factors in measuring the maturity and development of the FinTech ecosystem in a country is traditional actors' relationship with and openness to innovation and enterprise in the financial system. While there has already been a favorable trend underway for a few years now in terms of possible collaboration between traditional companies in the financial system and FinTech companies, 2021 has an increase in strategic alliances.

From a regulatory standpoint, strategic alliances between financial system and FinTech companies are notable for having a proportional and balanced regulatory regime. While they do not require prior authorization from regulatory bodies, the regulatory framework in force establishes certain guidelines to take into account, depending on the scope of the collaboration and the conditions of each particular company:

1. New product

It is crucial to perform a regulatory legal analysis on the financial service to be offered through the alliance to determine whether or not we are looking at a new product being launched for the first time by a company in the financial system or a change in an existing product that significantly changes its risk profile.

2. Third-party services (including subcontracting):

Let us recall here that goods and/or services provided by third parties to companies in the financial system are regulated and supervised by regulatory bodies. As a general rule, the financial company shall assume full responsibility for the

results of the processes subcontracted out to third parties, and may be punished for any violation of the regulations.

3. Operational risk

Traditional companies in the financial system are subject to operational risk management requirements, such as business continuity, data security, and cybersecurity, which must be guaranteed in a strategic alliance to reduce any regulatory contingencies.

4. Use of application programming interfaces (API)

Companies in the financial system that use APIs to provide online services must implement the security measures required by the SBS.

5. Tax treatment

The contractual legal relationship resulting from the strategic alliance may have tax implications. As such, it is recommended to prepare an analysis of the income tax and VAT, as applicable, that will arise from the agreement between the parties.

Below, we examine the most common business alliance structures, which will need to be evaluated to determine which is the most recommendable in terms of the parties' interests.

a. Consortia

Tax treatment for consortium agreements without separate accounting

For income tax purposes, for those agreements in which the nature of the operations does not allow separate accounting books and records to be kept, each contracting party may keep accounting books and records of their own operations, or one of them can keep the accounting records for the agreement. In both cases, they must request authorization from SUNAT, which shall have a maximum term of fifteen (15) days to approve or deny it. If no express decision is issued, the application shall be deemed approved at the end of this period.

However, the rule is to carry on separate accounting books, the tax consequence of carrying separate accounting books is to consider the consortium as an independent taxpayer from the parties. An exception of these rules, is the nature of

the operations as mentioned before, or if the consortia have a duration of less than three years. Consortiums are created through a partnership agreement by virtue of which two or more parties form a partnership to participate actively and directly in a given business or enterprise for the purpose of obtaining an economic benefit, with each one of them maintaining their own autonomy, according to Section 445 of the LGS.

Because the duration of these agreements does not exceed three (3) years, each contracting party may keep accounting books and records for its operations, or one of them can do the accounting for the agreement, for which purpose SUNAT shall be informed within five (5) days after the date on which the agreement is executed. The party acting as operator and entrusted with keeping the accounting books and records for the agreement shall also be a participant in the agreement, as a party thereto.

Consortia without separate accounting records:

- **Income Tax:** The operator shall attribute the corresponding results, using the Attribution Form.
- **IGV or VAT:** The operator shall attribute to each contracting party, according to the share in the expenditures established in the agreement, the tax that has been levied on the import and/or procurement of goods, services, and construction contracts for the purpose of use as tax credit.

Tax treatment for Consortia with separate accounting records

For the purposes of income tax and VAT, a consortium with its own separate accounting books and records is considered a legal entity.

b. Silent Partnerships

By means of silent partnership (“asociación en participación”, in Spanish) agreements, one party, known as the associating party, grants to another party or other parties, known as associate parties, a share in the results or earnings of one or more of the associating party’s business dealings or companies, in exchange for a predetermined contribution, according to Section 440 of the LGS.

► Income Tax

There has not been a standardized tax treatment of joint ventures. Recently, however, the Tax Court issued Resolution 02398-11-2021, in which it established the following compulsory criterion regarding this business practice.

Criterion established in Tax Court Resolution

Number 02398-11-2021

The associate’s participation, for the purposes of income tax, qualifies as a dividend or other form of shared profit.

Depending on the status of the associate, it shall be subject to income tax as follows:

1. If the associate party is a legal entity in Peru, such income is not a subject to income tax.
2. If the associate party is an individual or an entity other than a domiciled legal entity, such income is subject to second-category income tax.

It should be noted that common business practice prior to the publication of the foregoing criterion was that the associating party could deduct the share of the profit paid to the associate party when calculating income tax. For such purpose, the associating party granted the associate party a share in the profit from the business ventures in which they were engaged, in exchange for a contribution, and the associate party was required to consider the share received as taxable income, since it came from a transaction with a third party, which, according to Peruvian income tax law, is taxable revenue.

It has also been established that neither interest, nor updates in accordance with the consumer price index, where applicable, nor sanctions shall apply in the event of an omission due to the change in criterion.

5

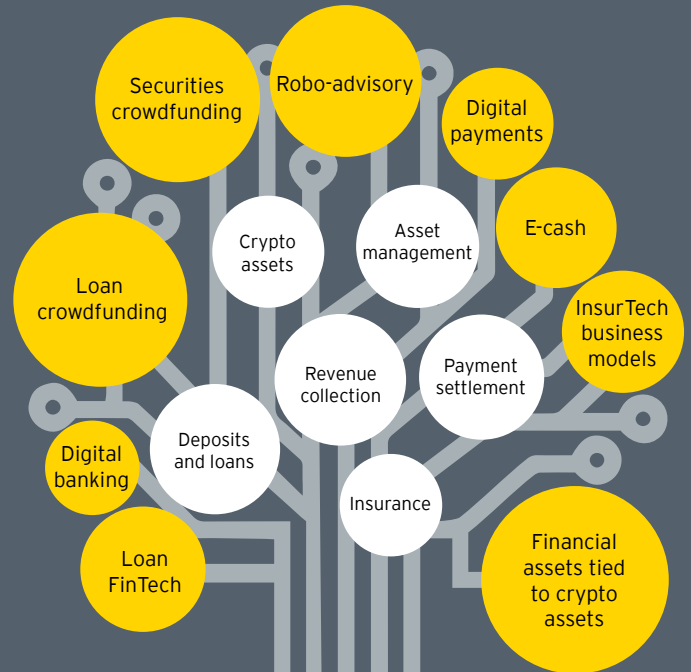
Open Banking and Open Finance

Open Banking is a policy that has recently expanded into more markets to allow banks to exchange client information, after first obtaining their consent, with third parties (FinTech developers and startups) to create faster, more competitive, and simpler applications and services, and to create more options for financial transparency in accounts.

Open Banking is a secure way for users to decide the organizations (aside from banks) with which their information can be shared. This information is then used to better manage the services they may receive, such as a quicker credit evaluation or more flexible options for receiving payments.

FinTech Tree: A Taxonomy of the FinTech Ecosystem

FinTech Activities



Enabling technologies

Policy enablers

Source: Bank for International Settlements (BIS); Financial Stability Institute. Insights on Policy Implementation No. 23. Policy Responses to FinTech: A Cross-Country Overview, 2020.

In our increasingly digital world, the conception of Open Banking has gradually broadened into Open Finance. Open Finance seeks to encompass a wider horizon for user data openness, so that it is not just banking institutions who exchange data with third parties, but also other entities in the financial system who facilitate and participate in this exchange, expanding its application to other segments, such as savings and investment, insurance, pensions, and more; and fostering new infrastructure, such as the development of digital identity for individuals and corporations.

Without prejudice to the foregoing, we will hereinafter use the term “Open Banking” interchangeably to refer to both Open Banking and Open Finance.

Some products that can be offered thanks to Open Banking:

- ✓ Personal financial management tools that show where expenses and income come from.
- ✓ Viewing of accounts in all banks or financial institutions that have adopted Open Banking.
- ✓ Debt and account management tools.
- ✓ Tools for small businesses to help manage cash flow and/or obtain better financing conditions.

a. Classification of Types of Open Banking Services

According to the Bank for International Settlements (BIS)⁷⁸, Open Banking services can be classified into two main categories, depending on the application of strong authentication procedures, as follows:

1. Open Banking services that do not necessarily require strong authentication:

This category includes Open Banking services providing easy access to publicly available data; for example, a web interface that gives third parties access to a list of products offered by financial institutions or the ATM infrastructure they have available.

2. Open Banking services requiring remote, extremely secure authentication:

This is the most important category, and includes Open Banking services that require both the use of third-party infrastructure to access users’ personal or transactional information, as well as the remote performance of transactions, e.g., payment instructions or taking out insurance.

The provision of services that fall under this category require a secure remote alternative to identify and authenticate users, given that they involve the access and exchange of private data.



⁷⁸ Bank for International Settlements (BIS); Financial Stability Institute. Insights on Policy Implementation No. 23. Policy Responses to FinTech: A Cross-Country Overview, 2020.

b. Advantages of Open Banking

The application of an Open Banking policy may create benefits for the financial system's ecosystem in different ways⁷⁹:

1. Traditional financial institutions can reach a new sector of users by making indirect use of data sources that were not traditionally available, allowing them to better evaluate the feasibility of providing services to clients. For example, the interaction and analysis of third-party data obtained through e-commerce activity may be used as an input for a credit evaluation that allows institutions to grant loans under more favorable conditions.
2. Institutions can offer tailored services to users, after obtaining data provided by third parties, thus making for an improved experience thanks to the available technology.
3. Non-financial third parties who work with companies in the financial system will be able to serve a greater number of users and expand their services.
4. More complete knowledge of user data may help expand the range of services offered to them, or to which they have access, thus contributing to financial inclusion.
5. Open Banking policies can help facilitate the creation of new products by digital banks and companies interested in the application of digital transformation.
6. Collaboration between supervised entities and FinTech companies.
7. Expanded offer of financial services and more competition.



⁷⁹ BIS Representative Office for the Americas. Enabling Open Finance through APIs; (ii) Jorge Muñoz and Eduardo Díaz. *Avances en la implementación del Open Banking*, Revista Moneda, 2020.

c. How does it work?⁸⁰

Open Banking uses open APIs to share user data. However, this basic aspect of Open Banking is not the only tool used to exchange data. Other techniques for sharing information on users of financial institutions with third parties (such as financial advisors or tax preparers) have included the use of screen scraping (a way of extracting data from a webpage, whether manually or automated) or reverse engineering, which presented certain security risks, given that the third parties who used them to collect information had to access client credentials, such as username and password, which could then be stolen or used without authorization, including to commit payment fraud. Such practices also made it harder for banks to distinguish between their clients' actions and unauthorized third-party actions.

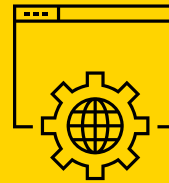
Banks around the world have thus recognized that authorization methods with tokens via APIs provide more control over the type and scope of data shared and are a more secure way of interacting with third parties.

APIs, or application programming interfaces, allow computer programs to communicate with one another and share information without human intervention.

Thus, in order for Open Banking to work, it is first necessary to obtain the prior consent of the client so that the financial institution can share their data with third parties. Then, the third parties will be able to access the bank's user interface and extract large volumes of data at multiple intervals. While the security systems of the bank or financial institution may react, these institutions do not typically deny access to third parties when there is proof that the client has given their consent for access to such data.



While APIs are not a new creation - they have a long history of use in software applications for communication via the internet - the creation and maintenance of public APIs may be long and costly for banks (especially when implemented bilaterally between individual banks and third parties).



Future Potential of the Use of APIs in Open Banking



According to the BIS⁸¹, the sector is adopting different combinations of open APIs (interfaces based on public standards) partner APIs (based on standards designed by strategic partners) and closed APIs (based on the bank's private standard) to provide services using Open Banking, such as payment, investment, loan, and account services, among others.



It is important to bear in mind, however, that the impact of bank APIs on banks' business models will probably depend on the scope and ways in which data is shared, the emergence of new technologies, information-sharing capacity, the appearance of new financial service providers, the evolution of market share, and the speed of these changes.

⁸⁰ Bank for International Settlements (BIS) and Basel Committee on Banking Supervision. Report on Open Banking and Application Programming Interfaces, 2019.

⁸¹ Bank for International Settlements (BIS) and Basel Committee on Banking Supervision. Report on Open Banking and Application Programming Interfaces, 2019.

d. Regulatory Advances and/or Status⁸²

Legend

- Jurisdictions that have ordered the mandatory implementation of Open Banking.
- Jurisdictions that incentivize the implementation of Open Banking.
- Jurisdictions that perform Open Banking without explicit laws or standards.
- Jurisdictions that are considering the adoption of Open Banking.

United Kingdom

The UK has institutions responsible for defining open banking standards: (i) the Open Banking Implementation Entity (OBIE); and (ii) the body in charge of the Competition and Markets Authority (CMA) in which the country's biggest banks participated. The rules have been collected in the Open Banking Standards document. The CMA predicts that open banking implementation will be completed before the end of 2021.

According to OBIE, its directives significantly overlap with those issued in PSD2 (European Directive regulating payment services). The scope is different, however; while OBIE offers the option of sharing information on individuals' and legal entities' current accounts, PSD2 covers all types of accounts and payment methods (including credit cards, digital wallets, and prepaid cards).

Currently, according to reports by OBIE, over three million people and companies in the United Kingdom were using open banking as of early 2021, offering positive signs as to open banking's potential.⁸³

Europe

In 2018, the European Union enacted the Payment Services Directive (PSD2) to improve innovative payment services, such as internet and mobile payments. PSD2 requires banks to offer more information on payment services than they did previously and has opened the door to the creation of new payment providers aside from banks.

It also allowed account owners to ask banks, free of charge, to share their financial data digitally with third parties, and even to authorize these third parties to initiate payments from their bank account.

Also in 2018, the General Data Protection Regulation (GDPR) entered into force, which protects and restricts data sharing by requiring the prior consent of their owner. While many have criticized the GDPR for not obligating banks to enable data sharing structures, and there have been claims that the GDPR runs contrary to the PSD2⁸⁴, others have defended their compatibility.⁸⁵

India

The unified payments interface (UPI) facilitates transactions through standardized APIs and allows for real-time payments. There is also an account aggregator system (NBFC-AA) used to transfer the data of clients who have granted their consent to any bank or FinTech company.

82 Jorge Muñoz and Eduardo Díaz. Avances en la implementación del Open Banking, Revista Moneda, 2020

83 (i) OBIE. OBIE's Annual Report 2020-2021; (ii) Jorge Muñoz and Eduardo Díaz. Moneda y Innovación Financiera No. 182. BCRP. Avances en la implementación del Open Banking, June 2020.

84 Deutsche Bank Research. PSD 2, Open Banking, and the Value of Personal Data, 2018.

85 Paula Galarrón. El Economista, PSD2 y GDPR: ¿incompatibles?, 2019.

Brazil

Brazil has begun Phase 1 of Open Banking implementation, which requires both banks and FinTech companies to release information on customer service channels, products, and financial services. The other phases are expected to follow in the coming months, allowing data to be shared on consumers, with their prior authorization, as well as their transactions and other activities, e.g., insurance and pensions.⁸⁶

Mexico

In March of 2018, Mexico approved a package of financial reforms known as the “FinTech Act” (“Ley FinTech”) which includes a requirement for Mexico to develop its own Open Banking standard to ensure that greater availability of information leads to improved opportunities and innovative solutions for consumers.

However, Mexico still needs to implement secondary regulations. To date, the only progress that has been made involves the regulations on open financial data, which is not confidential, dealing only with products, services, and ATMs. Regulations are expected in 2021 on aggregated data and transactional data.⁸⁷

Hong Kong and Singapore

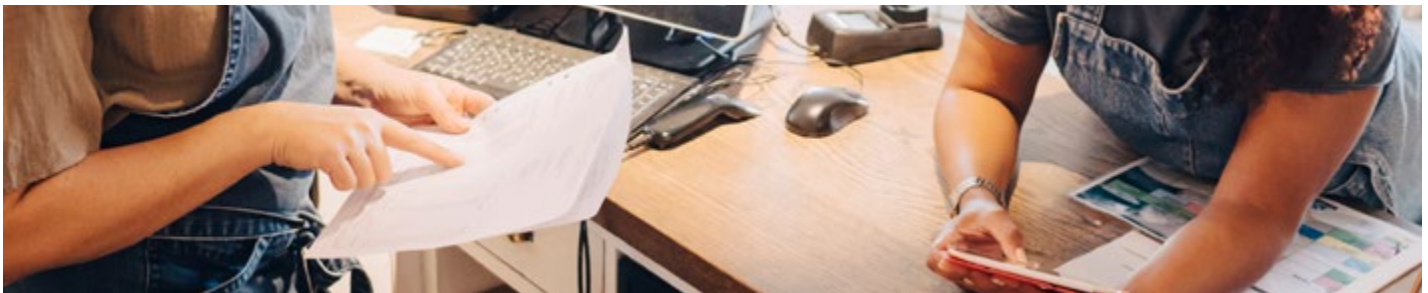
Both jurisdictions issued recommendations on open API designs and technical specifications, with a view to facilitating the adoption of Open Banking practices.

For example, in Singapore, the Monetary Authority of Singapore (MAS) and the Association of Banks published a document that summarizes API standards for the exchange of information and incentivizes more banks to participate in the Open Banking initiative.

United States of America⁸⁸

U.S. regulatory agencies have opted to let the market drive the development of Open Banking.

However, it is important to note that some agencies, such as the US Department of the Treasury, the Consumer Financial Protection Bureau (CFPB), the National Automated Clearing House Association (NACHA) and others, have made efforts to stimulate the adoption of Open Banking by publishing non-binding directives, model data access agreements, and API standards that can help financial entities implement Open Banking.



⁸⁶ Iupana. *Así Avanza el Open Banking en Latam, 2021*

⁸⁷ Iupana. *Así Avanza el Open Banking en Latam, 2021*

⁸⁸ Federal Reserve Bank of Boston. *Modernizing U.S. Financial Services with Open Banking and APIs, 2021*

China

Entities can share their clients' information with their prior consent.

The existing major FinTech platforms are currently developing Open Banking services in this relatively unregulated environment. For example, the Chinese companies Alipay and WeChat Pay have taken advantage of their enormous social media and gaming platforms and their customer bases to offer other services. The fact that citizens are willing to share their data has helped drive this trend, as well.⁸⁹

Canada

Canada is currently evaluating and considering the adoption of Open Banking. In 2019, the government issued a report titled "Open Banking: What It Means for You," which includes recommendations intended to lay the foundations for the launch of Open Banking in the country. In November 2020, the second phase of consultations began with parties interested in Open Banking, in order to provide better protection of consumer data.

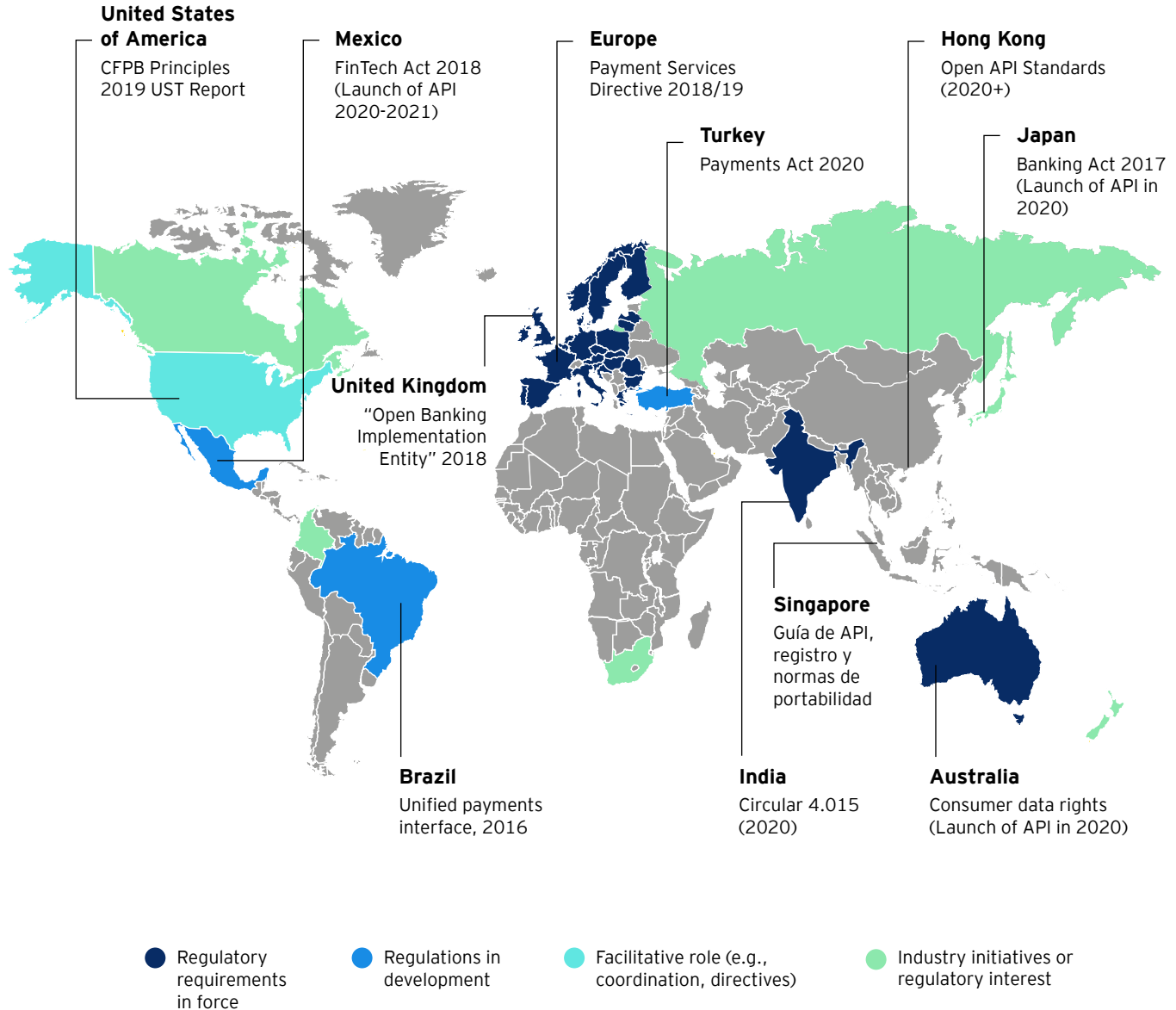
Peru

In Peru, we do not yet have regulations on Open Banking, nor standards or models that can be used by companies in the Peruvian financial system. However, our current laws provide a basic framework for their implementation in the future. For example:

- ▶ **Law 29733 - Personal Data Protection Act and its Regulations:** Establishes the regulatory framework for personal data processing, which must be complied with by all companies and individuals who use, gather, access, or process third-party personal data.
- ▶ Recently, the Executive Branch sent Bill 7870/2020 to Congress. This bill proposes the inclusion of the "right to data portability" so that any individual may ask a party who owns or is in charge of processing to give their personal data to another such party, where technically possible.
- ▶ **Regulations for Information Security and Cybersecurity Management, approved by SBS Resolution 504-2021:** Establishes rules and standards on information security and cybersecurity to be adopted by companies in the financial and insurance sectors when providing services and engaging in other operations, including the communication and transfer of information to third parties; minimum parameters for the use of APIs in providing services; and minimum security management obligations that companies must demand from their providers.
- ▶ **Emergency Decree 007-2020:** Orders the regulation and steps for companies who provide online services to incorporate a trust and digital security framework for users. Regulations have yet to be passed on this emergency order, which will create a much more complete framework of rules, obligations, and rights of online actors.
- ▶ **Sandbox Use Regulations:** The SBS recently approved procedures for authorizing supervised companies to develop innovative projects that require more flexible laws and standards, or that are not currently regulated by law.

⁸⁹ The Economist and Temenos. Open Banking: Revolution or Evolution? 2020.

Regulatory approaches and market-driven approaches will affect the speed and direction of Open Banking development.



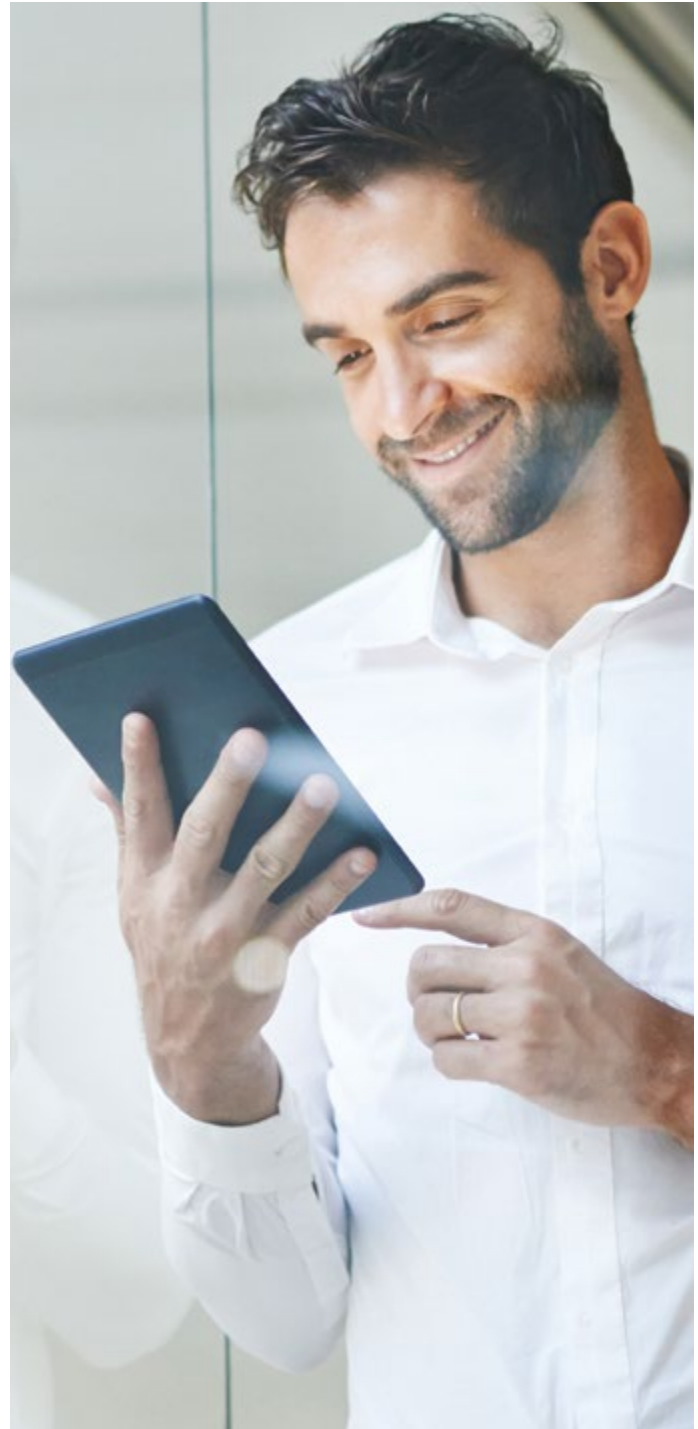
Source: The Economist Intelligence Unit Limited 2020 and Temenos. "Open Banking: Revolution or Evolution?", citing BBVA.

e. Challenges to Consider for the Development of Open Banking

The major challenge faced by regulators is finding a balance that allows for the facilitation of financial service data exchange without compromising the robustness and stability of the financial system as a whole. In other words, regulatory bodies should be seeking to neutralize Open Banking's externalities in the financial system.

On the one hand, the use of APIs to share information may expose the traditional financial sector to a wide range of new operational risks, such as cybersecurity incidents and reputational risks. Regulatory bodies must avoid causing this adverse impact through Open Banking. That is why it is essential to prioritize the proper management of these risks to safeguard the financial system's stability and protect customers, even by limiting the exchange of information in certain cases.

Experience in other countries shows us that, aside from the opportunities and benefits mentioned above, the creation and maintenance of APIs can be a long and costly process, both for companies in the financial system and FinTech startups. The experience in the United Kingdom shows that the process of adopting Open Banking can take more time than previously believed. There, an additional 1.5 years were needed beyond period of time initially planned for so that banks could adapt to the OBIE standards. As such, Open Banking laws must include a reasonable amount of time for companies in the financial system to adapt.



6

FinTech Investments: Venture Capital

The venture capital industry and investment in startups - FinTech companies among them - has been one of the most resilient areas during the difficult circumstances imposed by the pandemic around the world. Venture capital is a driver of economic growth and sustainable development. It helps prototype and bring to market business models that solve socioeconomic and environmental problems in Peru, the Region, and the world.

Investment in innovative businesses has become increasingly important around the world, with numbers in the Latin America region recently setting records while exhibiting significant sustained growth.

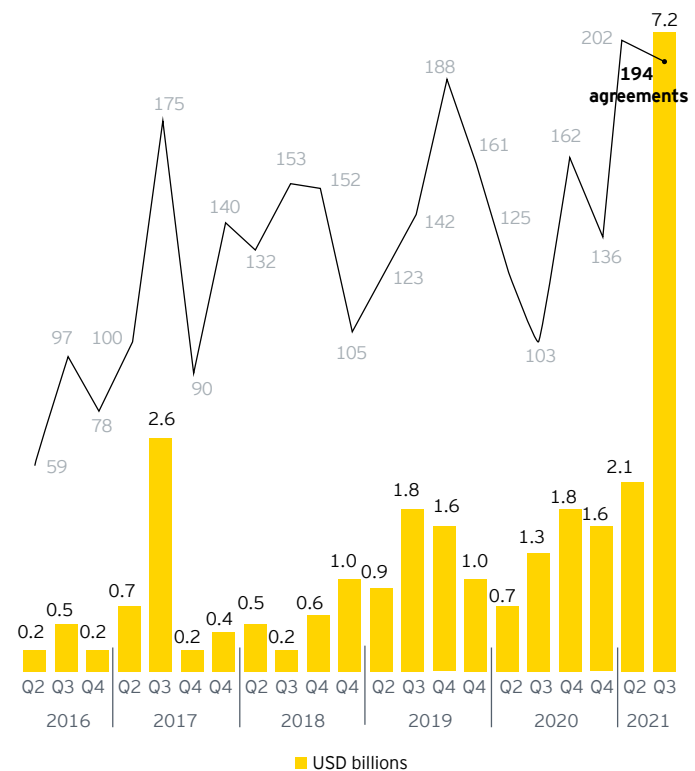
a. Venture Capital in Latin America

During 2020, despite the COVID-19 pandemic's undeniable effects on the economy and investment, startups in Latin America received a total of USD 4.1 billion, with a record of 488 transactions, according to the Association for Private Capital Investment in Latin America (LAVCA)⁹⁰. For the Region, this is the second record-setting year, thus confirming the consolidation of the venture capital ecosystem in Latin America.

According to numbers from the Inter-American Development Bank (IDB) in 2019, Latin America raised USD 4.6 billion in venture capital across a total of 440 transactions, doubling investment each year since 2016, when the total was just USD 500 million.

The Region continues to achieve historical records in investment figures. Thus far this year, CBInsights⁹¹ highlights the fact that Latin America began the first quarter with USD 2.1 billion in investment, with 202 transactions. During the second quarter, it reached an unexpected total of USD 7.2 billion in 194 transactions, exponentially surpassing all previous historical industry records in the Region.

Funding in Latin America shot up during the second quarter of 2020, hitting USD 7.2 billion



Source: CBInsights. State of Venture Report, Global: Q2 2021.

⁹⁰ LAVCA. "Latin America 2021 Industry Data and Analysis."

⁹¹ CBInsights. State of Venture Report, Global: Q2 2021.

b. Venture Capital Investment in FinTech - Latin America

Among the most attractive sectors for venture capital investors in the Latin America region this past year were FinTech, e-commerce, and PropTech, followed by EdTech, HealthTech, and different delivery platforms, as a result of the necessary digitalization during the COVID-19 pandemic of traditionally in-person sectors.

All of these sectors grew exponentially during 2020. However, there is one sector that accounted for a preponderance of the investment: FinTech, with over USD 1.6 billion in 2020, according to data from LAVCA. This sector was followed by e-commerce, with USD 414 million, and PropTech, with over USD 250 million in investment.

In 2021, the Region also hit historic milestones in FinTech investment and the number of transactions. In the first quarter of 2021 alone, FinTech investments in Latin America totaled USD 1.294 billion in 90 transactions⁹², establishing a new quarterly record.

Biggest Transactions by Country, Latin America, First Quarter 2021

The countries with the largest financing rounds in FinTech were Brazil, Mexico, and Colombia. These three countries account for **84% of all agreements**.



c. Venture Capital Peru

The venture capital ecosystem in Peru has also experienced significant growth. The quality of Peruvian startups and the critical mass of talent has substantially increased. This ecosystem has seen a rapid rise in enabling resources, taking advantage of the learning curve in similar countries and recognizing their great potential, making use of a vast entrepreneurial culture and the active participation of both public actors and, more and more, private actors (corporate venture capital). Nevertheless, it is still a young ecosystem, with certain flaws in the market; e.g., a limited capital supply for startups.

Peruvian startups have raised USD 46 million in capital over the last year, according to data gathered by PECAP⁹³. Despite international circumstances, investment in Peruvian startups multiplied by 2.2, up from USD 21 million in 2019 and generating eight times more than in 2016 (USD 5.6 million) when the building of the ecosystem began.

⁹² LATAM FinTech Hub. "Funding Update 2021 Q1."

⁹³ PECAP: Peruvian Association of Seed and Venture Capital

d. FinTech Investment in Peru



FinTech companies accounted for

18%
of the USD46
million invested
in Peru
in 2020

Unlike last year, this year offered sectors that were more attractive - or more necessary, given the circumstances - such as EdTech (40%) and e-commerce (27%). The year also saw one of the biggest FinTech rounds in Peru to date: FinTech B89 (USD 3 million).

Thus, FinTech remains among the top three most attractive sectors for venture capital in the country for the second year in a row, reflecting likewise positive regional and global trends,

and offering a solid response to the latent need for financial inclusion and a growing demand for technology able to transform the financial sector.

On the other hand, the country's economic slowdown triggered by the COVID-19 pandemic led to a drop in the number of transactions performed in Peru compared to 2019. While the investment amount rose by 30% from 2019 to 2020, the number of transactions fell by 40% in 2020.

This means that the investments made thus far are aimed more toward early stage startups, as well as more mature and sophisticated companies. Investment has fallen in unimplemented projects or those without a launched prototype, many of which are in the seed state.

The crisis accelerated the evolution of the Peruvian ecosystem. Angel investors, domestic and foreign venture capital funds, and corporate venture capital funds (which were much more active in the ecosystem) took part in capital rounds with higher prices in more consolidated startups. This creates a demand for startups with solutions that have already been validated by the market, with more scalable business models.

In view of the foregoing, the outlook on the growth of venture capital, the critical mass of high-quality startups, and investment in Peruvian FinTech companies is a promising one. With COFIDE launch of the first Innovative Enterprise Capital Fund (fund of funds, known as "FCEI") in Peru, the publication of its regulations in late 2020, and upcoming placements of certificates of participation to the benefit of Peruvian companies, the Peruvian government has reaffirmed its commitment to the ecosystem's development and the promotion of investment in innovative business models.

Growth of the Venture Capital Ecosystem, FinTech Landscape and Development 2021

Interview with an Expert



Meghan Stevenson

Chair of the Board of PECAP,
Director of INCA Ventures, and
founder of InclusivX



Listen to the
podcast here
(in Spanish)

Excerpt from the interview

1

Venture Capital Landscape for 2021

Meghan tells us that, in terms of investment, the performance of the venture capital ecosystem has displayed growth. According to a report by PECAP on the first half of 2021, the majority of investments were focused on the seed stage. "In the first half of this year alone, [investment] grew by 80% compared to the first half of 2020, with 18 million invested in eighteen transactions," Meghan tells us

2

FinTech Investment

Before talking to us about how attractive FinTech companies are for investors, she tells us how the COVID-19 pandemic has affected FinTech companies' business model and their search for investment. As Meghan sees it, the impact has been to compel changes inside FinTech companies, forcing them to think about how to make sure they are creating solutions that solve their clients' problems.

At the beginning of the COVID-19 pandemic, investment by funds was focused on current portfolios. To date, however, FinTech investment has grown a great deal thanks to startups' ability to make use of digitalization to strengthen their relationships with clients, among other things, notes Meghan. She highlights the fact that despite a drop in angel investment, FinTech continues to be the hottest sector for this type of investor in Latin America and Peru.

We cannot help but ask ourselves what investors are looking for when they invest in a FinTech company. Meghan helps by explaining certain "musts" which, in her eyes, apply across the board for early stage investment. She stresses the importance of the team and their experience in the sector, offering the example of an InsurTech company.

3

Other Considerations: Model Scalability and Use of Corporate Venturing

For Meghan, the scalability of a FinTech company's business model depends on many factors, such as legislation, as in the case of InsurTech companies, as well as the advice they are able to gather from the market that has already gained experience in the Region which companies are looking to enter.

Another invaluable factor, as Meghan explains in detail, has been learning how to make strategic use of corporate venturing to avoid spooking investors. She mentions a case in Peru that she believes speaks optimistically to the trust that can be built within the ecosystem for investment in a startup.

4

FinTech Growth Outlook

Meghan ends the interview on an optimistic note, telling us that PECAP goals for the last year included achieving an investment of **"USD 50 million by the end of 2021 and USD 100 million in 2022. But at this point, we're almost at USD 100 million in 2021."** With these record numbers for Peru, we are undoubtedly seeing growth in investment in FinTech companies, and in Peruvian startups in general, says Meghan.



FinTech Ecosystem – Peru

1 Digital banks
2 Factoring
3 Leasing
4 Loans

5 Crowdfunding
6 Digital wallets
7 Payment solutions
8 Cryptocurrency

9 Currency exchange
10 Remittances
11 InsurTech

1

Digital Banks

a. Definition

Digital banks perform their activities primarily by using electronic tools and virtual channels instead of physical establishments. Therefore, they are characterized by performing the same activities as traditional banks under a business model based on technology, digital platforms, connectivity, advanced data capacities, computers and mobile devices, which make it possible to provide remote services.

Furthermore, as they do not have physical establishments or legacy IT systems, they are considered to have a cost-saving advantage over traditional banks.

Europe

+15 million costumers

According to BIS, even though the COVID-19 pandemic has affected the growth of digital banks, they continue to attract customers. For instance, in Europe, digital banks have attracted over 15 million customers since 2011 and could reach up to one fifth (1/5th) of the population older than 14 by 2023.

United Kingdom

Customers have tripled

According to BIS,⁹⁴ digital banks in the United Kingdom have nearly tripled their customer base from 2018 to 2019.

Digital banks carry out the same type of business as traditional banks, since they mostly offer the same banking products and services to their customers, thus incurring similar risks to those faced by traditional banks, such as credit risk, market risk and, to some extent, liquidity risk. However, some types of risks may be higher for digital banks, such as operational or cyber risks, because their functioning is based on an extensive use of technologies.



⁹⁴ Bank for International Settlements (BIS) Regulating Fintech financing: digital banks and FinTech platforms; 2020

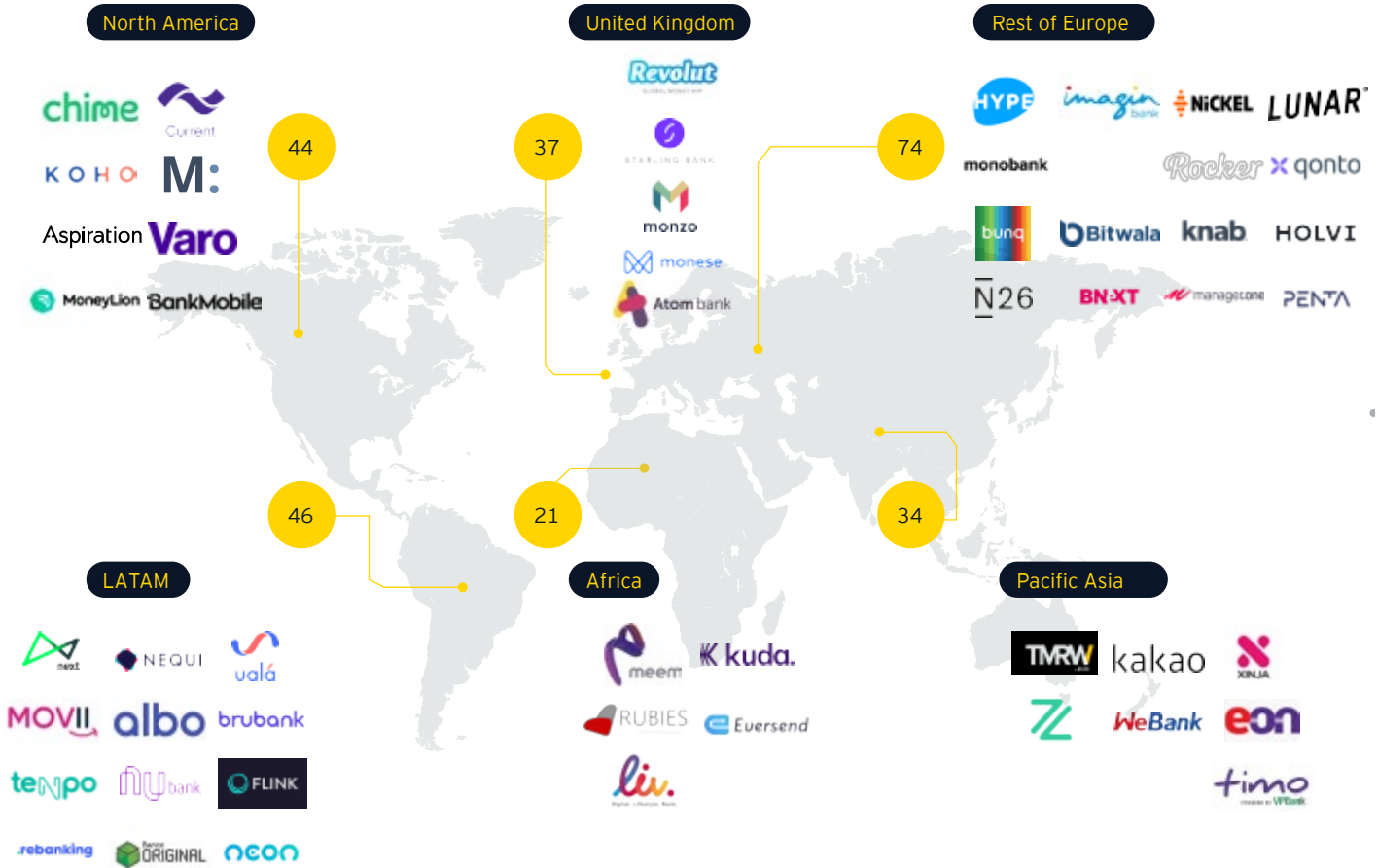
b. Digital Bank Models

In the language of the FinTech world, when we refer to digital banks, we can identify the following models:

1 Challenger Bank	<p>These are entities holding a banking license that offer most or all of its financial services digitally, with no or limited physical presence, at lower costs. They provide innovative or highly effective and efficient services, as they do not rely on physical or IT infrastructure with legacy technology. To do so, they can use a variety of channels, such as online banking, telephone banking, ATMs and mobile devices, although they generally rely on internet-based services.</p>	<p>Challenger Bank and Neobank concepts are not completely established and admit some variations. However, a “digital bank” is not a regulatory concept and does not deny a possible physical presence, given that, based on its business strategy and target markets, a bank could complement the services it offers with some additional its own or third-party points of distribution or contact, through various channels, including alternative ones, such as correspondent ATMs.</p>
2 Neobank	<p>These entities provide services to users generally through an alliance with a regulated, specialized financial institution and also deliver them primarily through digital channels. In order to operate in the market, they enter into agreements with regulated companies, which assume responsibility for compliance with the applicable regulations governing the provision of such services.</p> <p>It is worth noting that a Neobank is not a bank and does not have its own license to operate regulated financial services, which can only be provided with SBS authorization.</p>	<p>In Peru, a non-banking company may not claim to be a “bank” or induce the public to believe that it is a banking entity and, in general, use terms that may lead the public to believe that, without being a bank, its activity has been authorized by the SBS.</p>

Source: Superintendency of Banking, Insurance and Private Pension Fund Management Companies (SBS); *Bancos 100% digitales: ¿pueden operar en el Perú?* Weekly Newsletter No. 13; 2020.

Examples of Digital Bank Models



Source: Exton Consulting. Inside Financial Services: Neobanks 2021, 2020

+200% increase in digital banking since 2015.

Growth in part encouraged by regulatory bodies that have introduced digital banking-related policies.⁹⁵

95 Singapore FinTech Association, FinTech Control Tower and Boston Consulting Group. DIGITAL CHALLENGER BANKS. November 2020.

Some examples of digital banks, according to Singapore FinTech Association⁹⁶

Neo Banks		Challenger Banks	
Chime Bank A U.S. neobank, whose partner is Bancorp-Stridebank, which offers virtual banking services, without a physical location. It does not charge any bank fees, such as monthly maintenance costs.	Neat It allows the issue of corporate expense cards, as well as collecting, paying and managing cash flows from its platform, saving users time and money. ⁹⁷ Qonto A registered payment institution supervised by the Banque de France, with entrepreneurs as its target audience. ⁹⁸ It allows making payments and provides accounting tools that help users manage their business and finances.	Revolut Founded in 2014 in London, it is a challenger bank that offers instant payments, free international money transfers and no-fee global expenses. ⁹⁹ Monzo Founded in London in February 2015, it is one of the leading digital banks in Europe. In 2019, it began its expansion in the United States. ¹⁰⁰ Nubank It is the largest and second most funded Brazilian FinTech company in Latin America. Founded in May 2013 in Brazil, Nubank focuses on serving the country's unbanked population with credit cards. At present, it offers digital accounts with no fees and free transfers, and credit that performs simulations, helps manage payments and lets users know how much they have left to pay.	MYbank An affiliate of Ant Financial Services, a member of Alibaba Group. MYbank was created in 2015 to serve small- and medium-sized enterprises and farmers. It uses artificial intelligence, IT and risk management technologies to improve customer service and enhance efficiency.

⁹⁶ Singapore FinTech Association. FinTech Control Tower and Boston Consulting Group. DIGITAL CHALLENGER BANKS. November 2020

⁹⁷ Neat's webpage

⁹⁸ Qonto's webpage

⁹⁹ Alerta Económica: 10 principales bancos 100% digitales a nivel mundial; 2020

¹⁰⁰ Alerta Económica: 10 principales bancos 100% digitales a nivel mundial; 2020

c. Characteristics:

According to Singapore FinTech Association, Digital Banks, including Neobanks and Challenger Banks, have the following characteristics:

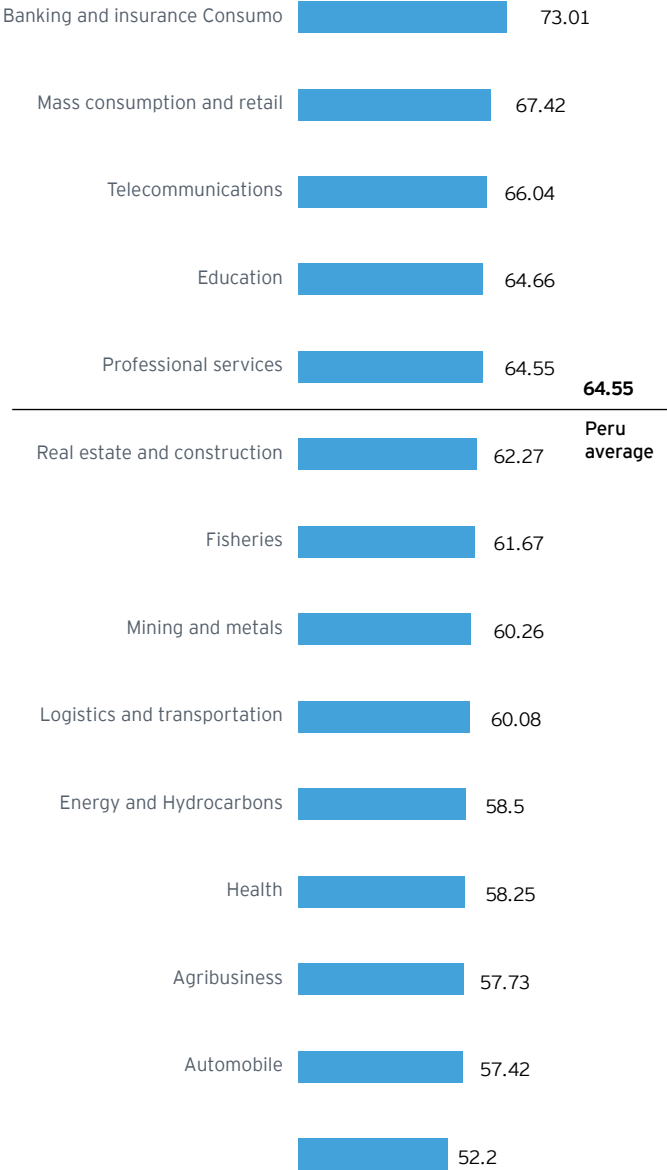
1. They offer digital-only and mobile-centric services that are available at any time and at any place.
2. They design great customized user experiences as well as fast and hassle-free services.
3. They take advantage of the cloud-native open architecture, enabling advanced analytics.
4. They operate as a company that prioritizes technology, emphasizing an agile work environment.
5. They develop brand affinity with the user community, connecting with users through non-traditional channels.

d. Digital Transformation

In addition to the above-described Digital Bank models, it is also important to consider the digital transformation efforts of traditional banks that have enabled to provide digital and innovative services, which differ from traditional ones.

In line with the above, it should be highlighted that the Peruvian banking and insurance sector records the country's highest digital maturity index. In other words, such sector boasts the highest digital transformation at an organizational level and with proper balance across all business areas, according to a study conducted by EY in 2021.¹⁰¹

Digital Maturity Index by Sector in 2021



Source: EY Peru; Impacto de la crisis en la madurez digital de las empresas peruanas.

¹⁰¹ EY Peru: Impacto de la crisis en la madurez digital de las empresas peruanas; Consulting; 2021.

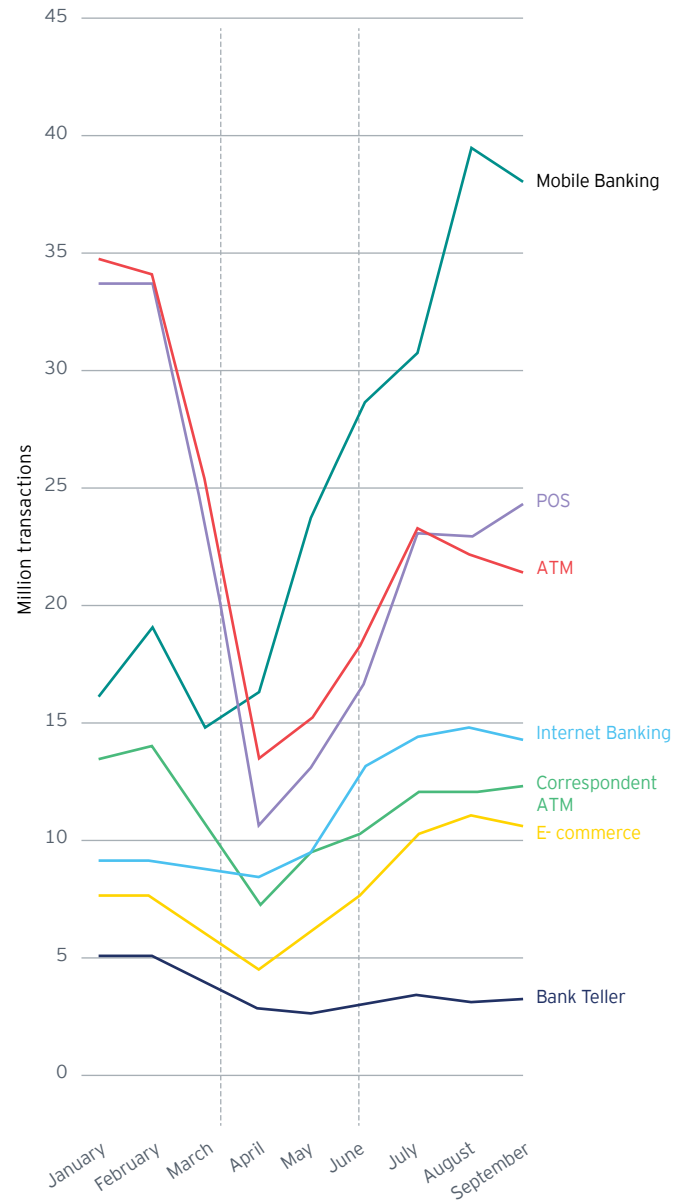
While the study shows that financial system companies have based their digital transformation investment decisions on several approaches, including, among others, strategy and innovation, and customer experience, the primary approach used by the banking and insurance sector to carry on with its digital transformation process is the scope of risk and cybersecurity. Digital transformation growth in 2021 remains consistent with 2020's growth.



For further information on cybersecurity, please click on the following link:

Moreover, due to the impact of the COVID-19 pandemic, digital transactions such as Mobile Banking have significantly increased as compared to POS and ATM transactions.¹⁰²

Evolution of the main means of payment in 2020



Source: BCRP; citing ASBANC; 2020.

102. Banco Central de Reserva del Perú (BCRP). XXXVIII Encounter of BCRP Economists. Digitalización e Inclusión Financiera, December 2020.

According to the SBS, towards the end of 2020 and the first quarter of 2021, the financial system gave a major boost to digital solutions, e.g. by allowing users to open bank accounts remotely or to make money transfers and payments from their mobile phones.

Expansion of payment apps



1.3 million
users¹⁰³

According to May 2021 data, Bim has over 1.3 million users.



7 million
users¹⁰⁴

According to September 2021 data, Yape has 7 million users.



4 million
users¹⁰⁵

According to July 2021 data, Plin has over 4 million users.



1 million
users¹⁰⁶

According to May 2021 data, Tunki has over 1 million users.

Without prejudice to the foregoing, it has been announced that the interoperability of the platforms is likely to be achieved towards the end of the year.¹⁰⁷

Yape and Plin

11 million

As of October 2021, Yape and Plin together had over 11 million users.¹⁰⁸

7 out of 10 Lima residents would like to have a 100% digital banking product.

In November 2020, a study¹⁰⁹ revealed that 7 out of 10 Lima residents would like to have a 100% digital banking product because it is easy to acquire (59.4%) and involves simple, easy-to-learn processes and steps (47.5%).

¹⁰³ Gestión newspaper; Doce millones de usuarios de billeteras digitales estarán conectados a fin de año; May 2020.

¹⁰⁴ Ecommercenews: Yape celebra por los 7 millones de usuarios alcanzados; September 9, 2021.

¹⁰⁵ Amcham News: PLIN supera los 4 millones de afiliados; July 12, 2021.

¹⁰⁶ Gestión newspaper; Doce millones de usuarios de billeteras digitales estarán conectados a fin de año; May 2020.

¹⁰⁷ Ecommercenews: Plin dispuesta a acceder pagos y transferencias de dinero con Yape ¿Se dará la interoperabilidad?; October 20.

¹⁰⁸ Ecommercenews: Plin dispuesta a acceder pagos y transferencias de dinero con Yape ¿Se dará la interoperabilidad?; October 20.

¹⁰⁹ Neo Consulting's study cited by Interbank. Interbank; Interbank entre los bancos más innovadores del país; March 03, 2021.

To date, several Peruvian financial entities have undertaken concrete actions that have been decisive for the advancement of their continuous digital transformation process.

Banco BBVA Perú	Scotiabank Perú ¹¹⁰	Banco de Crédito del Perú - BCP
<ul style="list-style-type: none"> ► Use of facial biometrics as a mechanism for authentication and authorization of operations through facial recognition of the person.¹¹¹ ► It has provided digital solutions such as “T-Cambio”, a virtual foreign exchange service.¹¹² ► It has been working on a 100% digital account that is opened, managed and closed from the mobile telephone, using a video-selfie of the client for full authentication of the transaction.¹¹³ 	<ul style="list-style-type: none"> ► In 2017, it inaugurated the Digital Factory in Lima and is working on a more intensive use of digital channels. In 2018, it launched the Scotiabank app, which allows users to acquire products, from savings and term deposit accounts to personal loans, credit cards and insurance. <ul style="list-style-type: none"> ► One of every two products is acquired through the new app. ► Only one of every ten money transactions is performed in agencies. ► During the COVID-19 pandemic, it has worked on strengthening capacities such as biometric identification, advanced analytics and real-time assistance. 	<ul style="list-style-type: none"> ► In 2017, the Yape app was launched to the market; it allows making transfers without knowing the destination account number or token (digital key) only the beneficiary’s mobile phone number.¹¹⁴ ► It has the “Coco y Lucas” platform, which enables currency exchange.¹¹⁵ ► In 2020, it also launched “Grou”, a digital solution that provides “order and structure” to small and medium-sized enterprises, in terms of daily earnings, expenses and compliance with tax payments.¹¹⁶
Interbank ¹¹⁷	Mibanco ¹¹⁸	
<ul style="list-style-type: none"> ► Through the Interbank App and Internet Banking, users can perform 95% of their transactions and hence can access the bank at any time and place as needed. ► Interbank has developed products such as: (i) Cuenta Simple (Simple Account) which can be opened online, without having to go to the bank, (ii) Digital Card, and (iii) Virtual Piggy Bank. 	<ul style="list-style-type: none"> ► It has launched the Mibanco Móvil app, which allows opening Business Savings or Time Deposit accounts, making transfers, inquiries and other transactions. ► It has entered into an alliance with Culqui to provide a mobile POS and reduce the use of cash. ► It has joined Yape to allow users to make money transfers. 	

110 Scotiabank; 2020 Annual Report; 2021.

111 BBVA: *El uso de la banca móvil de BBVA crece un 72% en Perú*; 2020.

112 BBVA: *¡Cambia dólares a precio preferencial con BBVA T- Cambio!*

113 BBVA; *América Retail. Interviews with CEOs; BBVA, el banco más digital del Perú, aumentó 72% el uso de la banca móvil*; 2020.

114 Marketing Insider Review; *Cómo es la transformación digital en los bancos de Perú*.

115 Marketing Insider Review; *Cómo es la transformación digital en los bancos de Perú*.

116 Iupana; *Innovation Strategy; BCP apunta hacia PYMEs y jóvenes*; October 26, 2020

117 Interbank; *Interbank entre los bancos más innovadores del país*; March 3, 2021

118 Mi Banco; Extracted from Mi Banco's web: “For a new version of your business.”

FinTech Ecosystem in Peru

Interview with the Regulatory Body



Interview conducted by SBS' Deputy Risk Superintendency

1

Based on your experience, how do you see the Peruvian FinTech ecosystem's composition?

The FinTech ecosystem is broad and wide ranging. It is comprised of a great variety of solutions and models and has great potential to transform the provision of financial services, which must consider variables such as market development, commercial practices, and the legal and regulatory environment, which vary significantly from one country to another. In Peru, the business models and activities being developed as part of the FinTech ecosystem include proposals that offer: loans, foreign exchange, payment solutions, financial advice, information aggregation and analysis services, as well as crowdfunding.

It should be mentioned that these developments can appear as startups or be promoted by financial system and insurance companies, who often seek support in startups, which create synergies among the different industry players. Moreover, a FinTech company can be regulated or unregulated, depending on the activity it carries out.

Furthermore, we believe that this ecosystem will continue to grow and develop in the upcoming years, considering the increasing demand for digital financial services by the public and, hence, the companies interest in meeting this demand.

Also, this development will be facilitated by regulatory efforts recently made, among them the enactment of the regulations for the temporary performance of activities in novel models, which opens spaces to try innovative solutions.

2

In your opinion, what financial activities that use information technology must be regulated in Peru and why?

In principle, we consider that the mere novel application of a new technology does not necessarily require specific regulation. The Superintendency has always sought to enact technologically neutral regulations, so that they are more focused on what companies must do or comply with (“WHAT”) rather than on how they must do so (“HOW”).

This approach has proved to be quite beneficial in the current environment in which the digitalization of services has become so necessary. As a result, in recent years, we have seen a substantial increase in the number of initiatives proposed by the financial, insurance and private pension fund systems to digitalize products and services. It has been possible to do this within the current regulatory framework, without major changes being required and, above all, without the need to create a FinTech-specific regulatory framework. This probably contrasts with the situation observed in other countries.

Since 2017, the Superintendency has been working on the implementation of a strategy that consists of targeted interventions to regulate those activities that may so require due to their nature, level of development in the local market and associated risks. Interventions are in proportion to the associated risks.

In this regard, we have enacted several regulations that, despite pursuing broader purposes, have expressly included considerations related to the innovation and digital transformation process that the industry is going through, referring to information security and business continuity, cloud computing specifications, requirements for information exchange through application programming interfaces and for management of services provided by third parties. Furthermore, the “Regulations on Authorization of Companies and Representatives of the Financial and Insurance Systems”, recently enacted, will enable to speed up the authorization procedures for the entry of new entities by bringing closer the interested parties and the SBS.

3

What are the regulatory bills brought forward by the SBS for the FinTech ecosystem?

Currently, the development of many FinTech-related activities in our country is subject to a regulatory framework. Such activities include the issuance of e-money, which is regulated and supervised by the SBS, and crowdfunding, which is regulated by the Securities Market Superintendency. In this case, the Act governing this activity states that, in crowdlending matters, the SBS shall issue a prior opinion on the authorization requested by a corporation for the development of such modality.

Furthermore, FinTech companies engaged in the buying/selling of currency and granting of loans by virtual means, just like those that perform these activities physically, are entities bound to the Financial Intelligence Unit (UIF) an entity attached to the SBS, for money laundering and terrorist financing purposes.

In addition to the foregoing, pursuant to its mandate and powers, the Superintendency endeavors to keep its regulations updated to contribute to a better development of the digital financial services. For this purpose, we have enacted several rules that, despite pursuing broader purposes, expressly include considerations related to the innovation and digital transformation processes that the industry goes through and to the need to facilitate both internal changes and the relationships with third-party providers of technological services. These improvements include, among others:

- ▶ Update of the authorization framework for new companies in order to simplify it and make it more predictable and explicit vis-à-vis the new initiatives.
- ▶ Amendment to the Regulations on Credit and Debit Cards, which modified, among others, the definition of card to disassociate it from a physical representation. Also, the

requirements associated with the minimum information to be included in cards were reviewed.

- ▶ Expansion of limits for transactions with e-money.
- ▶ Improved regulation of services provided by third parties to regulated companies in order to strengthen risk management associated with activities performed by third parties.
- ▶ Update of the information security rules, which included the regulatory development concerning cybersecurity, digital onboarding, application programming interfaces (API).
- ▶ Enactment of the New Regulations on Temporary Performance of Activities in Models, which creates sandboxes for innovative solutions.

Besides the above, as part of our work agenda, we are studying the opportunities associated with Open Banking; we have already conducted a first study on this matter with the World Bank's support.

4

What does UIF-Peru propose for crypto assets?

The Superintendency, through the UIF-Peru, submitted to the Ministry of Justice and Human Rights (MINJUS) a regulatory bill to include Virtual Asset Service Providers (VASP) as parties with a duty to report to the UIF-Peru, pursuant to the Recommendations of the Financial Action Task Force (FATF) so that they become bound by the obligations of the Money Laundering and Terrorist Financing Prevention System.

The regulatory bill, besides complying with FATF requirements, is based on the fact that Peru is one of the countries in the Region that carries out the greatest number of Virtual Asset (VA) transactions through VASPs. As VASPs are not parties obliged to report to the UIF-Peru, they provide an ideal space for criminal organizations to launder their assets without further control; in other words, they make us vulnerable to the commission of crimes through this type of companies and activities .

Furthermore, given that VASPs do not have a comprehensive supervisory entity, the SBS, through the UIF-Peru, will act as such in matters related to the prevention of money

laundering and terrorist financing. If a comprehensive supervisor were designated in the future, such supervisory task would be transferred to that entity.

The FATF does not use the concept of "crypto assets"; it rather uses the term VA and defines VASPs as any individual or legal entity who is not covered elsewhere under FATF recommendations and, as a business, conducts one or more of the following activities or operations for or on behalf of another individual or legal entity:

- ▶ Exchange between virtual assets and currencies and fiat currencies.
- ▶ Exchange between one or more forms of virtual assets.
- ▶ Transfer of VA.
- ▶ Safekeeping and/or administration of virtual assets or instruments enabling control over VA.
- ▶ Participation in and provision of financial services related to an issuer's offer and/or sale of a VA.

5

Do you consider that there is resistance to the use of digital financial services? If so, how could user interest in such services be increased?

In fact, there is possibly some resistance to the use of digital financial services due to a bad user experience, financial education gaps, limitations on access to digital solutions, or lack of financial services that satisfy the population's needs.

However, the pandemic crisis has caused significant changes in the behavior of the financial system clients and users, leading to an increased openness to digital financial services and products.

This in turn accelerates the digital transformation of financial system companies, which is aimed at meeting the new demands of users in a context in which the reduction of physical contact is sought.

The preference for digital financial services is evidenced by the growth of Virtual Banking transactions, which as of December 2020 recorded an 88% increase in terms of number and a 32%

increase in terms of amount as compared to the previous year; by the number of immediate interbank transfers, which is 13 times higher than 2019 figure; and by the number of electronic money accounts, which went up from 1.1 million in 2019 to 3.3 million in 2020.

In order to contribute to the increase in the access to and use of digital financial services by users, activities are being carried out to offer safe digital financial services and develop financial and digital capacities among the population. These activities include the Multi-sector Strategic Plan (PEM)¹¹⁹ of the National Financial Inclusion Policy (PNIF)¹²⁰, which contemplates financial education actions and the training delivered by the Superintendency through the “Finances for You” (Finanzas para ti) Program, which covers topics such as the use of digital channels and fraud prevention, financial management in times of COVID, and others. In addition, it is planned to draft regulatory bills to reduce the use of cash and strengthen enabling conditions that promote the use of e-money and digital means of payment by the entire population.

Likewise, in order to increase user interest, it is important to continue expanding connectivity and promoting digital literacy, particularly in the country’s rural and remote areas. This can be achieved through Broadband Projects; the implementation of Digital Access Centers (DAC) which will feature computers, tablets and other equipment that contribute to the development of digital skills and expand internet access; and the generation of alliances with institutions that can foster digital literacy.

6

How has the COVID-19 pandemic impacted the FinTech ecosystem in Peru?

The financial services industry has already been experiencing profound changes in recent years through the digitalization of its products and services. However, the COVID-19 pandemic and the new working conditions have significantly changed consumer behavior and have been an important driver in the digital transformation of companies.

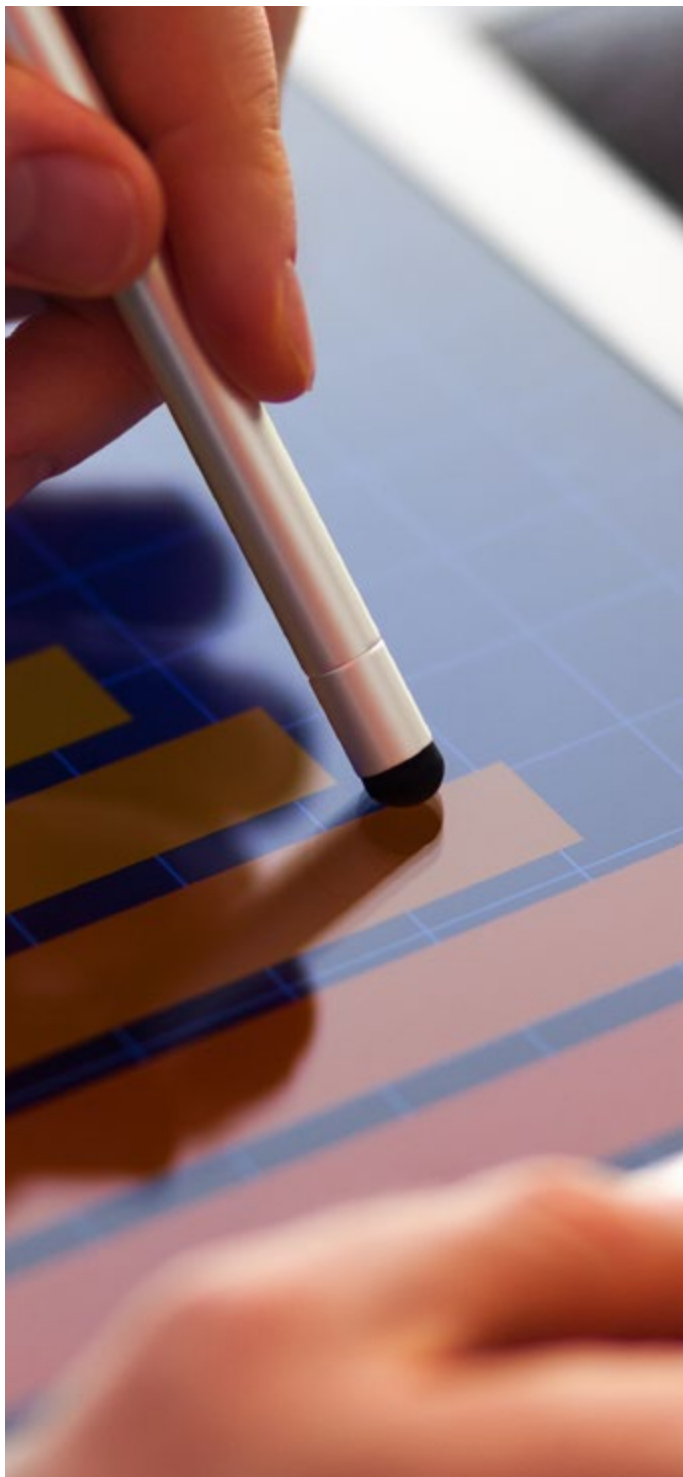
This is shown by people’s preference for conducting their financial transactions through non-traditional channels. Thus, we see a 13-fold increase in interbank transfers and an almost 5-fold increase in transactions through virtual channels.

On the companies side, we note an increase in the initiatives associated with new products and major changes as well as in the implemented solutions, such as electronic wallets, credit products offered on the internet, virtual currency exchange services, transfers and payments using only a mobile phone number, among many others. As at August 2021, companies reported to the Superintendency 204 new products and significant changes, 41% of which are related to the development of digital services. In 2020, the number of new products was 315 and 37% of these were associated with the development of digital services. The increase in the number of those products in 2020 exceeded 70% as compared to the previous year, while the number had doubled in 2019.

In addition to the above, we identified that, although many of these changes relate to their own developments and initiatives, there has also been an increase in the number of alliances or collaborations with startups that are facilitating the digital transformation of some products and processes. Among such collaborations are the agreements being worked out by the entities for the interoperability of their solutions.

¹¹⁹ Please note that the acronym is in Spanish.

¹²⁰ Please note that the acronym is in Spanish.



2

Factoring

Factoring is a transaction whereby the factoring company acquires, for valuable consideration, credit instruments such as commercial invoices, negotiable invoices, trade acceptances and, in general, any debt security from a person (the client). In some cases, additional services may be provided, such as commercial research and information services, management and collection, accounting services, market studies, comprehensive advisory and similar.

This financing alternative is characterized by being a transaction where the factor (factoring companies) assumes the debtor's risk, except in the case of a different form of factoring.

In particular, this is a very useful tool for small and medium-sized enterprises (SMEs) as it allows them to obtain liquidity for their working capital. Thus, in 2020, more than 600,000 invoices in the amount of PEN 13 billion were negotiated, benefiting over 13,000 companies in the country, 10,264 of which were SMEs.¹²¹ Nonetheless, the growth of factoring has already been recognized, since during the 2015-2019 period 1,029,455 negotiable invoices totaling PEN 32 billion were negotiated.¹²²

¹²¹ Ministry of Industries (PRODUCE); *Ejecutivo continúa promoviendo el financiamiento inmediato de las mipyme a través de empresas de factoring; 2021.*

¹²² Ministry of Industries (PRODUCE); *Ejecutivo continúa promoviendo el financiamiento inmediato de las mipyme a través de empresas de factoring; 2021.*

a. Some Peculiarities of Factoring

Who can perform factoring transactions?

Factoring transactions can be performed not only by SBS-supervised companies but also by other companies that do not fall within the scope of the Act. The main conditions and obligations to be complied with by these companies are detailed below:

33.8%

The sectors that have used factoring the most in 2020 are: services (33.8%) commerce (27%) and manufacturing (26.5%).¹²³

Type of Companies	Conditions	Obligations
Factoring companies under the scope of the Act	<ul style="list-style-type: none">▶ The book balance of factoring and/or discount transactions carried out by legal entities, either on an individual or consolidated basis, must exceed PEN 800,000,000 or its equivalent in foreign currency, for two consecutive quarters; or▶ Companies must belong to a financial or mixed conglomerate that is made up of at least one multiple transaction company, one specialized company, one investment bank or one insurance company.	<p>These companies must comply with those obligations to which any SBS-supervised entity is subject, such as the following:</p> <ul style="list-style-type: none">▶ They must be incorporated in the country as a joint stock company (sociedad anónima).▶ They must apply for the Authorization to Organize and, subsequently, for the Authorization to Operate.▶ The regulatory capital required for a factoring company is PEN 2,833,598, as established in SBS Circular Letter G-212-2021.▶ They must comply with other provisions enacted by the SBS, such as filing information, complying with anti-money laundering and counter-terrorist financing regulations (AML/CFT), preventing risks, and other provisions.
Factoring companies outside the scope of the Act	<p>A factoring company will be deemed to be outside the scope of the Act if it does not meet any of the above-mentioned conditions.</p> <p>A factoring company that comes under the scope of the Act must apply for the Adaptation Authorization within one hundred eighty (180) calendar days after any of the above-mentioned conditions is satisfied.</p>	<p>These companies are subject to a flexible regime that does not require them to fulfill the same obligations as supervised factoring companies. They must comply with the following obligations:</p> <ol style="list-style-type: none">1. File with the Registry of Factoring Companies outside the scope of the Act.2. On a quarterly basis, file information on (i) book balances of transactions, and (ii) ownership changes in excess of 3%.3. On a semi-annual basis, submit the financial statements.

123 Ministry of Industries and Fisheries (PRODUCE); *Ejecutivo continúa promoviendo el financiamiento inmediato de las mipyme a través de empresas de factoring*; 2021.

Considerations Regarding Credit Instruments:

- ▶ Credit instruments must be freely available to clients.
- ▶ Factoring transactions may not be performed using credit instruments matured or originating from financing transactions with supervised companies.
- ▶ Credit instruments may include commercial invoices, negotiable invoices, trade acceptances, debt securities and, in general, any marketable debt security.
- ▶ Credit instruments are transferred by endorsement, account entry or any other permitted form that allows transferring ownership to the factor.
- ▶ Factoring transactions do not require the participation of the debtor but must be carried out with the debtor's prior knowledge.

b. Benefits

For the factor	For the client
<ul style="list-style-type: none">▶ In the case of a financial system company, it may expand its services if it opts for this type of transactions.▶ It may obtain a higher return on commissions and interest.	<ul style="list-style-type: none">▶ Increased liquidity due to the advance payment of funds.▶ Possibility of obtaining working capital in an innovative manner and, in some cases, via online and in the short term.▶ Savings in collection procedures.

c. Types of Factoring

By assumption of risk

- a. "Recourse" factoring:

The client takes on the risk for the debtor's failure to pay. The factoring company (factor) does not guarantee the risk for the insolvency of the assigned debtor.
- b. "Non-recourse" factoring:

This is a typical form of factoring where the factoring company does guarantee the risk for the debtor's insolvency.

By its form of execution

- a. Factoring "with notice":

The client must notify the assigned debtor that the invoices containing its debt have been transferred to the factor and that the factor will be the only party authorized to collect them.
- b. Factoring "without notice":

The client does not notify its debtors that the receivables have been transferred; therefore, the client will continue to be the creditor. Payment shall be made to the client, who is in turn required to reimburse their amount to the factor within the term set in the agreement.

Other:

Crowdfactoring:

It is a type of factoring managed through platforms, in which the companies participating as users may collect their invoices in advance through the contribution of the investors who decide to acquire certain parts of the invoice.

d. Application of VAT

On the one hand, the transfer of receivables to the factoring company is not a transaction subject to VAT. However, the financial service provided to the client will be subject to VAT, unless the service provider is a bank entity, a financial institution, a municipal savings and loan entity, a credit union, or any other SBS-supervised entity.

Additionally, the VAT will be levied on recourse factoring; hence, non-resource factoring is not subject to VAT.

On the other hand, the additional services provided by the factoring company will be subject to VAT and the tax base is represented by the total compensation paid for such services.

e. Factoring Promotion

Recently, the Peruvian government has enacted some rules aimed at promoting and strengthening factoring transactions as an instrument to fund micro, small and medium-sized enterprises (MSMEs):

Emergency Decree (Decreto de Urgencia) 013-2020:

This Emergency Decree establishes measures that facilitate the negotiation with invoices, such as:

- ▶ Reduction of the term to give conformity of the invoice and the transferee's obligation to register its conformity or non-conformity in SUNAT platform. In the event of non-conformity, any of the following reasons must be considered: (i) payment date agreed; (ii) net outstanding amount; and (iii) claim with respect to the goods acquired or services rendered.
- ▶ Publication by the Ministry of Industries (PRODUCE) of the payment terms agreed and the payment defaults, according to the information received by SUNAT.

Executive Decree (Decreto Supremo) 239-2021-EF:

Recently, the Regulations to Title I of Emergency Order 013-2020¹²⁴ have been enacted. Such Regulations will apply to Electronic Invoices and Electronic Receipts for Professional Fees paid in full or in installments within the term agreed between the purchaser of the good or user of the service and the supplier or service provider. In this regard, this law regulates matters such as the additional information to be included in the Electronic Invoice and the Electronic Receipt for Professional Fees, the process to express conformity or non-conformity and to make such documents available, the exercise of the right to the tax credit or exporter's credit balances, or any other benefit related to VAT refund, among other provisions.

The platforms to be used for such purposes are not yet ready and the enactment of the provisions authorizing such operational adaptation is still pending.

Emergency Decree 044-2020

During the COVID-19 pandemic, the resources of the "Creceer" (Grow) Fund were allocated to factoring companies for the sole purpose of financing factoring transactions and discounts of credit instruments and bills of exchange.¹²⁵ Furthermore, such measures were extended to June 30, 2021 to continue supporting MSMEs.

¹²⁴ Executive Decree 239-2021-EF.

¹²⁵ Executive Decree 239-2021-EF.

3

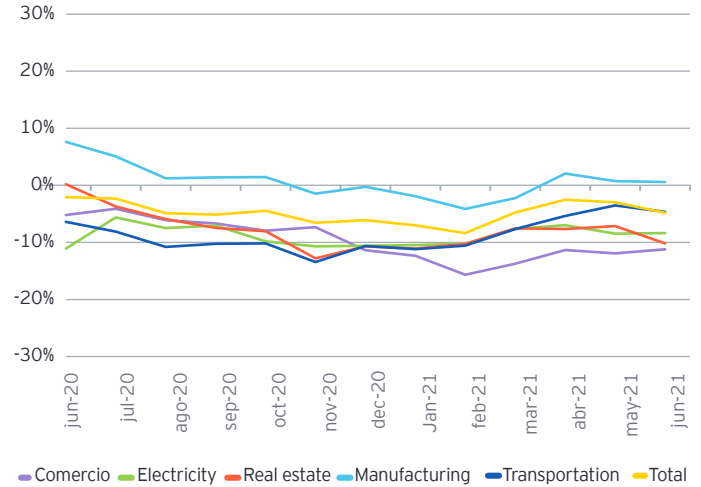
Leasing

a. The Leasing Market in Peru

Leasing is an agreement whereby a lessor lease movable and immovable assets to the lessee in exchange for periodical payments, with the lessee having the option to buy such asset at an agreed value, in accordance with Section 1 of Legislative Decree (Decreto Legislativo) 299. This form of financing is often used for the acquisition of capital goods or fixed assets, such as offices or buildings, vehicles or machinery.

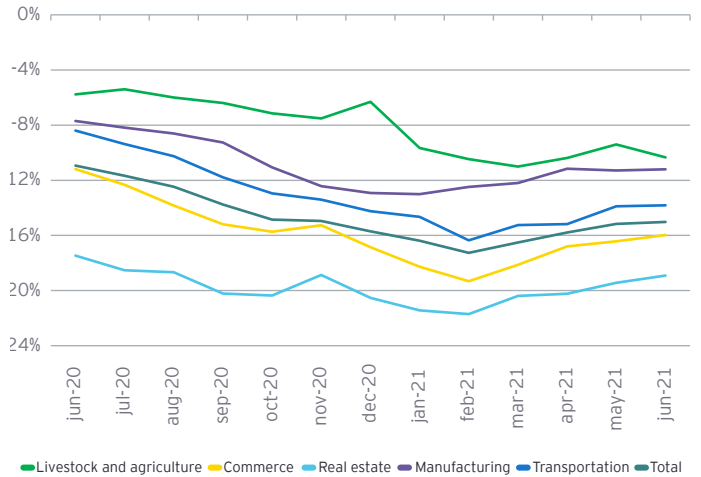
Leasing offers advantages to both the client and the lessor. Clients will benefit from the accelerated depreciation of the asset purchased and, as such depreciation does not imply an outflow of cash, clients will earn credit against VAT and liquidity to keep the business running. Leasing companies will face a lower risk as owners of the asset until the purchase option is exercised by the client. Nonetheless, in the past 12 months, as at June 2021, the balances and number of leasing agreements decreased as shown in the tables below.

Amounts by main sector (annual variation)



Source: Peruvian Banking Association (ASBANC); Monthly Newsletter; June 2021

Agreements by main sector (annual variation)



Source: Asbanc Semanal, Economic Studies, No. 343, Year 10.

b. Main Changes in Peru's Leasing Regulations

In order to foster leasing as a funding tool for MSMEs, Emergency Decree 013-2020 updated the legal framework governing leasing. The main changes introduced include:

1. Leasing Companies under the Scope of the Act

In order to promote the financing of small and medium-sized enterprises, Emergency Decree 013-2020 expanded the range of companies that can provide leasing services, by creating the registry of leasing companies outside the scope of the Act on

the Financial and Insurance Systems and Internal Regulations of the Superintendency of Banking and Insurance—Law 26702.

Furthermore, SBS Resolution 2413-2020 approved the regulations on leasing companies, which sets forth the conditions for leasing companies to be regulated by the Act and the conditions under which they are not included within such scope. The chief differences include:

Leasing Companies Under the Scope of the Act	Leasing Companies Outside the Scope of the Act
<p>These are companies that specialize in the performance of leasing transactions and that meet any of the following conditions:</p> <p>a. The book balance of leasing transactions carried out by individual legal entities or by a group of legal entities or companies belonging to an economic group exceeds PEN 800,000,000 during two (2) consecutive quarters or its equivalent in foreign currency.</p> <p>b. They belong to a financial or mixed conglomerate made up of at least one company specified in Section 16, items A to D of the Act, in accordance with SBS Resolution 5780-2015—Special Rules on Relationships and Economic Group.</p> <p>Their incorporation process is comprised within the scope of the Act and they must comply with the regulatory capital established. As of October 2021, this amounts to PEN 5,098,804.</p> <p>The delivery of financial information is governed by the general rules applicable to Financial System Companies, in accordance with the Accounting Manual for Financial System Companies.</p>	<p>These are companies that do not meet the conditions set forth in items a) and b) previously described.</p> <p>If, at any future time, any of these companies meets any of these conditions, it must carry out an adaptation procedure.</p> <p>Their incorporation process is not regulated and they must not comply with any regulatory capital requirement. However, in order to commence operations in the country, they must provide the SBS with the required information for registration purposes.</p> <p>The companies thus registered must report the balance of their operations on a quarterly basis and submit their financial statements on a semi-annual basis, among other requirements.</p>

As a result of the creation of the registry of leasing companies outside the scope of the Act, as of October 2021, 23 leasing companies are registered with the SBS.

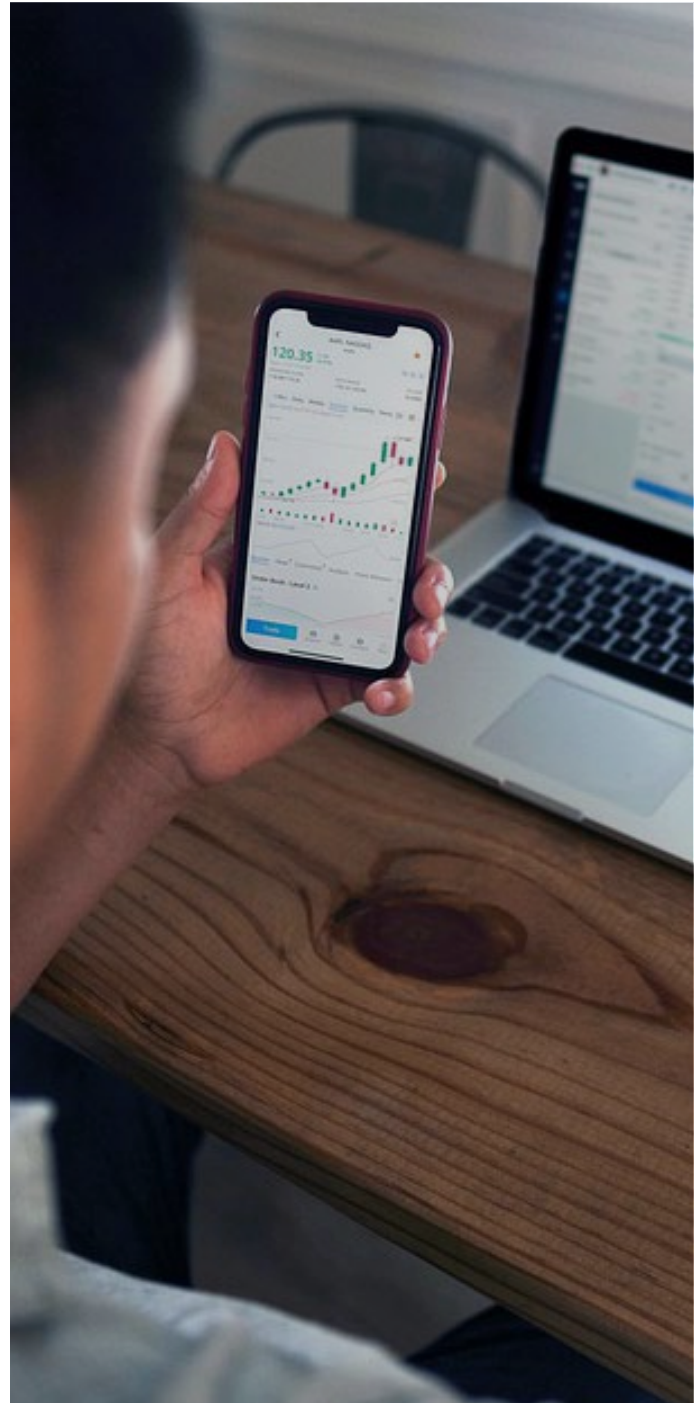
2. Overcoming an Impasse: The Lessee's Liability in a Leasing Agreement

Even though Legislative Decree 299 established that, upon receiving the good from the leasing service provider, the client is liable for any damage that this asset may cause, leasing companies have been imposed fines and sanctions as a direct consequence of the liability of the user or operator of these goods.

This situation has significantly discouraged leasing supply. In this context, the amendment proposed by Emergency Decree 013-2020 included the effective determination of the lessee's liabilities with regard to the assets being funded while they are in lessee's possession. Thus, it was specified that the client is liable to any person for the personal or material damages caused, including but not limited to (i) civil liabilities; (ii) criminal liabilities; and (iii) administrative liabilities.

Additionally, said order included an amendment to the Land Transportation and Traffic Act, Law 27181, which establishes that, in the case of some administrative infringements, the rules on the joint and several liability of the vehicle owner do not apply to vehicles covered by a leasing agreement.

To complement Emergency Decree 013-2020, Law 31248 was published in 2021 to strengthen the financial tools for the economic recovery of MSMEs by facilitating the access to credit, the generation of guarantees and State purchases to revitalize the economy. This Act specifies that the rule on liability resulting from traffic accidents does not apply to vehicle owners who lease their vehicle under a leasing agreement, provided they have delivered the vehicle to the lessee.



Both rules fill the regulatory gap concerning the lessee's liability in a leasing agreement. This is expected to encourage an increase in leasing transactions.

3. Innovations in the Formalities for the Execution of Leasing Agreements

In response to the context created by the COVID-19 pandemic, Emergency Decree 013-2020 established changes in the formalities for the execution of leasing agreements. These changes are aimed at giving more facilities for the execution of these agreements by telematic or digital means, thereby reducing the exposure between clients and the leasing company's workers and making the execution process more expeditious.

In this context, leasing agreements can be formalized by any physical, digital or electronic means that provide evidence of the parties' will, with due authentication of such parties. This authentication process may be carried out by signing a public deed, through the use of legalized signatures, digital or handwritten signatures, as determined by the parties.

The possibility of using digital or electronic signatures, as well as supports of the same nature, is an additional step towards the adoption of new forms of contracts and a recognition that, in Peruvian regulatory matters, the legal effects of these signatures are acknowledged.

4. Should leasing agreements be registered with the Public Records Office or not?

At present, the registration of the lease agreement with the appropriate Public Records Office is optional. Thus, the question arises as to whether registering the agreement with the Public Records Office is convenient for the development of the business and the protection of the clients' interests. In this regard, when evaluating whether it is appropriate to take steps to obtain such registration, it is necessary to take the following into account:

- ▶ To obtain the registration with the Public Records Office, it is indispensable to have a notarially recorded instrument, among other requirements. The registration process will imply an additional cost to be borne by the client.
- ▶ Registration expenses will be incurred and they must be borne by the client.
- ▶ Registration with the Public Records Office will make enforceable the rights derived from the leasing agreement.
- ▶ In sanctioning administrative or civil proceedings arising from the use of the assets being financed, such registration will make it possible to identify the leasing company as owner, but not as a party liable for any damages caused, as previously explained.

c. Income Tax Treatment

Overall, the most important tax aspects of leasing in Income Tax matters are as follows: (i) accelerated depreciation system; (ii) compensation associated with the destruction of the asset under lease; (iii) increase of the financed capital; and (iv) amendment to the lease term.

1. Accelerated Depreciation

The lessee may choose to depreciate the assets under lease according to the lease term, provided that the following requirements are met:

- ▶ The exclusive purpose of the agreement consists in assigning the use of the asset, which must be considered as costs or expenses for purposes of the Income Tax Act.

-
- ▶ The asset is exclusively used to perform the respective business activities.
-
- ▶ The lease term is not less than two (2) or five (5) years for movable and immovable assets, respectively.
-
- ▶ The purchase option may only be exercised upon termination of the agreement.
-

Non-compliance with any of the above requirements during the lease term will have the following effects:

- ▶ The lessee must rectify their Income Tax returns and refund the respective tax together with interest.
-
- ▶ This rule does not apply if the agreement is terminated due to payment default.
-

2. Compensation received by the Lessor in the event of a loss:

The compensation payable to the lessor to replace, fully or partially, the asset under lease may generate:

▶ **Taxable Income:**

When the compensation exceeds the acquisition value of the asset.

▶ **Non-taxable Income:**

When the compensation exceeds the acquisition value of the asset, provided that the following requirements are met:

- ▶ The asset is acquired within six (6) months following receipt of the compensation.
- ▶ The asset is returned to the lessee within a term not to exceed eighteen (18) months after the compensation is received, except in extraordinary cases.

Now then, if the above conditions are not met, the compensation that exceeds the outstanding amount of the financed capital will constitute taxable income.

Moreover, if the replacement of the asset implies an increase in the financed capital, the increase will constitute taxable income for the year.

The lessee may only increase the cost basis of the asset replaced if the financed capital is increased.

If the asset is not replaced and the leasing agreement is rendered ineffective, such part of the compensation that exceeds the outstanding amount of the financed capital will constitute taxable income.

3. Increase of the Financed Capital

The agreement must establish the financed capital as well as the value of the purchase option and the agreed installments, specifying principal and interest. Such rule also applies whenever the agreement is amended. The lessee will register the property as an asset for the amount of the financed capital. If the amount of the financed capital is higher than the acquisition value, the difference will constitute taxable income for the lessor in the year in which the agreement is entered into.

Furthermore, any subsequent increase in the amount of the financed capital will constitute taxable income for the lessor at the time the appropriate notarially recorded instrument is signed, except for such portion of the increase corresponding to the value of:

- ▶ The permanent improvements introduced by the lessor.
- ▶ The capitalization of accrued interest pending payment.
- ▶ The capitalization of the VAT transferred to the accrued installments pending payment.

4. Modification of the Lease Term

In the event that the lease term is modified, the lessee will take the following into consideration:

- If the lessee depreciated the assets according to the Income Tax regulations, it will continue to depreciate them according to such rules.
- If the lessee applied the special accelerated depreciation system, the annual maximum depreciation rate will be recalculated on a straight line basis based on the remainder of the contractual term.

The depreciation rate will be applied on the balance of the depreciable value as of the modification date.

d. Value Added Tax (VAT) Treatment

For VAT purposes, leasing transactions are taxed considering each of the benefits involved in the structuring of the transaction. In the case of leasing, this transaction is treated as an operating lease with purchase option. Therefore, this type of transaction will be taxed as follows:

- Acquisition of the asset by the lessor: The acquisition of the asset by the lessor is subject to VAT, which constitutes tax credit for the lessor (the registration of costs or expenses is not required).
- Leasing installments: They consist of principal and interest and are subject to VAT. Furthermore, the lessee may use VAT as tax credit.
- Purchase option: This is a transaction subject to VAT.



e. Accounting Treatment

1. Accounting for the Lessee:

► Recognition and Initial Measurement

Lessees are required to initially recognize a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments to be made during the lease term. The right-of-use asset comprises, if applicable, the amount of the initial measurement of the lease liability, any lease payments made before the commencement date less any lease incentives received, the initial direct costs incurred, and an estimate of the costs of dismantling, restoring and removing the asset.

Lessees are allowed to prepare an accounting policy by type of underlying asset to apply a similar method to that established for the operating leases of IAS 17 and, hence, not to recognize a lease asset and liability when they are short-term (less than one year), or the underlying asset is of low value.

► Subsequent Measurement

Lessees will increase the lease liability to reflect the interest and will reduce it as lease payments are made. The right-of-use asset will be depreciated as per the requirements set forth in IAS 16. For lessees that depreciate the right of use on a straight-line basis, the effect of the financial expenses arising from the lease liability and the depreciation registered for the right of use will be higher in the initial lease periods.

A lessee will remeasure the lease liability—which is generally recognized as an adjustment to the right-of-use asset—upon occurrence of certain events (e.g., changes in the lease term, changes in the variable income based on an index or rate).

Lessees may apply alternative methods to measure the right of use of the asset under certain circumstances in accordance with IAS 16 and IAS 40, such as the fair value

model and the revaluation model, respectively.

Right-of-use assets may be presented separately from other assets in the statement of financial position or disclosed separately in the notes (if presented together with other assets in the statement of financial position). Similarly, lease liabilities will be presented separately from other liabilities in the statement of financial position or disclosed separately in the notes (if presented together with other liabilities in the statement of financial position).

2. Accounting for the Lessor

► Recognition and Initial Measurement

The accounting for the lessor under this new regulation has not changed substantially from the IAS 17 perspective. Lessors will continue to recognize the essence of the transaction and not the legal form of the agreement to classify the lease as a finance or operating one.

For leases classified as operating, lessors will recognize the underlying asset.

For leases classified as finance, lessors will derecognize the underlying asset and will recognize a net investment for the lease (receivable). Any difference between both of them will be recognized directly in the income statement, assuming that the transaction is at fair value.

► Subsequent Measurement

For leases classified as operating, lessors will recognize the payments received as rental income on a straight-line basis or another systematic basis (if it is more representative of the structure with which the profit from the use of the underlying asset is diminished).

The respective depreciation of the asset that is necessary to obtain such income will be registered. For leases classified as finance, lessors will recognize financial income over the lease term based on a pattern reflecting a constant periodic rate of return on the net financial investment (receivable). This investment will be reduced as payments are received.

3. Sale and Leaseback Transactions

A seller-lessee and a buyer-lessor will apply IFRS 15 requirements to establish whether the transfer of an asset is accounted for as a sale. If the transfer of the asset satisfies IFRS 15 requirements to be accounted for as such, the transaction will be accounted for as a sale and as a lease by both the seller-lessee and the buyer-lessor. Otherwise, the transaction will be accounted for as a financing and IFRS 9 requirements will be applied.

4. Amendment

In March 2021, the Board amended the conditions of IFRS 16 - Leases practical solution that provides relief to lessees through the application of a guide on lease modifications under IFRS 16 with regard to the accounting of payment concessions directly resulting from the COVID-19 pandemic.

As a practical solution, a lessee may elect not to assess whether a COVID-19-related rent concession of a lessor is a lease modification. A lessee electing to do so will account for any change in the lease payments resulting from the COVID-19 rent concession in the same manner as it would account for the change under IFRS 16, if the change is not a lease modification.

The practical solution applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and if all of the following conditions are met:

- ▶ The change in the lease payment results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- ▶ Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments before June 30, 2022 and increased lease payments that extend beyond June 30, 2022).



4

Loans

Within the FinTech industry in Peru, the financing vertical is one of the largest. The same is true for Latin America, given that one out of five FinTech companies operates in the lending vertical. For this reason, this is the sector with the strongest presence at a regional level, followed by the payment vertical.

Although the isolation generated by COVID-19 led to an increase in online lending, this situation had already been occurring for several years. As stated by IDB and Finnovista in a 2017 study,¹²⁶ the financing segment recorded an annual average growth of 130% since 2013 in Latin America and the Caribbean.

This vertical is characterized by the use of digital platforms and other digital technologies for one or several stages of the lending process. This vertical is carried out by companies using their own resources and by platforms connecting investors with persons requiring financing.

Furthermore, this business model also focuses on strengthening the constant interaction with clients and on managing large amounts of information about them. In some cases, this allows them to provide accessory and supplementary services to financing, which may not only be extremely helpful for users, but are also encouraging the creation of new products and strategies for this vertical, as we will discuss below.

a. Types of Loans

The types of loans described below can vary according to the relationships established and, depending on this, such services may be provided by FinTech companies or by the traditional participants in the financial system.

1. Business to Consumer (B2C):

This type of loan may be granted by FinTech companies and by banks and other traditional entities that provide financing. Under this category, the financing is granted against the companies' own funds and companies assume the insolvency risk and the credit risk of clients.

In the case of banks, their incursion into this FinTech vertical has been taking place for some years since they began to incorporate the use of technologies for the provision of their financing services, just as FinTech companies do. For example, some entities have created their own online platforms to meet financing requests and have been using artificial intelligence and machine learning techniques in their processes.¹²⁷

2. Consumer to Consumer (C2C):

This type of financing is granted by FinTech companies and involves making available to requesting users an easy and fast loan application process that can be communicated to and known by investor users willing to lend their funds in exchange for a financial compensation. In this manner, the platform facilitates the matching between borrowers and investors or lenders. In addition, such activity may be carried out under two models:

2.1 Peer to Peer:

This loan is between an individual user who applies for a loan and an individual user who is willing to take charge of the full investment.

¹²⁶ IDB and Finnovista; *FinTech: Innovaciones que no sabías que eran de América Latina y el Caribe*; 2017.

¹²⁷ BIS; *Mercados de financiamiento FinTech en todo el mundo: tamaño, determinantes y cuestiones de política*; 2018.

2.2 Crowdlending:

Under this model, the loan applied for by a user may be financed by several investors.

In order to learn more about the implications of crowdlending, we invite you to review the Crowdfunding section, where we elaborate on the particularities involved.

What are the main differences between C2C loans and bank loans?¹²⁸

The main difference relates to the risk assumed in the transaction. Financial system companies usually assume the risk of non-payment of a loan granted by them, while under the C2C model investors assume the risk for the financing granted.

Another difference is how income is generated. Financial system companies usually earn profits through the lending interest rate charged for the loan, discounting the borrowing interest rate applicable to their transactions. Under the C2C model, platforms operate as an agency; hence, their profitability will depend on their capacity to attract and retain investors generating income from the payment of fees.

b. Regulations to be Considered

Civil Code:

For services provided by entities not belonging to the financial system, the maximum compensatory and default conventional interest rate set by the BCRP or, in its absence, the legal interest rate set by the same institution are to be considered. Likewise, the interest capitalization prohibition must be observed.

Law 31143 - Act Protecting Financial Services Consumers from Usury:

The financial system entities developing the activities of this vertical must comply with the provisions of this recently enacted law, which primarily establishes that consumer credits, small-amount consumer credits (equal to or less than 2 Tax Units (UIT)) and credits for small and micro-enterprises will be subject to an interest rate cap set by the BCRP. Financial entities fixing a rate above the one set by the BCRP will be liable to be charged with the offense of usury. Furthermore, if borrowers fail to make payment, the financial entity will be prohibited from charging a penalty, fee or expense or from capitalizing interest. Therefore, only the default interest rate may be applied.

Crowdfunding:

If any crowdfunding activities are performed, the crowdfunding provisions contained in the recently enacted law must be complied with. For further details, please refer to the Crowdfunding section.

¹²³ BIS; *Mercados de financiamiento FinTech en todo el mundo: tamaño, determinantes y cuestiones de política*; 2018.

Money Laundering and Terrorist Financing Prevention (PLAFT¹²⁹):

The performance of these activities grants the status of obliged party not only to the financial system companies developing them, but also to FinTech companies. In this regard, as obliged parties, they must have a compliance officer; report suspicious transactions; fulfill obligations related to having knowledge of certain parties with whom they interact such as clients, suppliers, workers, and correspondent banks, among other obligations.

Filing with the Registry:

SBS Resolution 1201-2018 established that lending companies falling outside the scope of the Act must necessarily file with the Registry of Companies and Individuals performing Financial or Currency Exchange Transactions.

Exemption from the Value Added Tax (VAT):

In accordance with our tax regulation, only the income from credits granted by SBS-supervised entities, such as Banks, Financial enterprises, Municipal Savings and Loan Entities, Municipal Popular Loan Entities, Micro- and Small Enterprise Development Entities (EDPYMEs), Credit Unions, among others, even when they are domiciled in the country, are exempted from VAT.

c. New Trends in the Sector

While we have already commented on the types of supplementary loans and services usually offered in this vertical, there are innovations in which the sector is making inroads, as it is considered that betting on a single product, such as financing, favors the sustainability of the company. Thus, some FinTech companies are proposing new models and products, such as:

► **Buy now, pay later model:**

It proposes to provide credit at low costs, through a digital means of payment, in exchange for pledging the purchased asset as payment guarantee for the FinTech company.

► **Transformation into digital banks:**

To carry out this process, it firstly proposes to diversify the financing proposals offered to the market towards the transformation into a digital bank.

► **Innovation with other players:**

This is the case of Mexican FinTech company R2 Capital, which offers a lending solution integrated into payment processors, POS systems and POS terminals. This allows it to analyze business transactions and understand its operational flow to be able to provide credit solutions for each profile.

These alliances may be also designed to implement automatic payments or reimbursements at the time of collection. For instance, payment companies may take a percentage of the future payments received by the borrower.

¹²⁹ Please note that the acronym is in Spanish

5

Crowdfunding

a. What is Crowdfunding?

Crowdfunding is a financing and investment method whereby, through a digital platform, a deficit agent—the recipient—who wishes to carry out a given project is contacted with investors seeking to obtain a financial return. These platforms are administered by joint stock corporations (Sociedades Anónimas) that are supervised and regulated by the Peruvian Superintendency of the Securities Market (SMV)¹³⁰.

The regulatory treatment of crowdfunding gained special importance following the publication of Emergency Decree 013-2020 in January 2020, which promotes the financing of MSMEs, entrepreneurships and startups. This order establishes the crowdfunding models that are regulated and general provisions concerning the obligations and requirements to which crowdfunding platform Management Companies are subject.

Subsequently, in late May 2021, the SMV published Superintendent Resolution 045-2021-SMV/02, which approved the Regulations on Crowdfunding and Management Companies (the Crowdfunding Regulations). Such new regulations establish, among others, the obligations of Management Companies as well as the requirements to obtain the Authorization to Organize and the Authorization to Operate from the SMV.

b. What crowdfunding models are regulated?

In accordance with the Crowdfunding Regulations, crowdfunding activities may be carried out under the following models:

- ▶ **Securities crowdfunding:** Recipients obtain resources from investors in exchange for equity or debt securities.¹³¹
- ▶ **Loan crowdfunding:** Recipients obtain a loan and are under the obligation to pay the principal and the financial return to investors. This can materialize through the issuance of a financial instrument or any other security.¹³²

Recipients obtain a loan and are under the obligation to pay the principal and the financial return to investors. This can materialize through the issuance of a financial instrument or any other security.

Furthermore, it has been stated that the following types of crowdfunding are not comprised within the scope of the Crowdfunding Regulations:

- ▶ Those requiring funds for projects in which offeror of funds (investors) do not seek to obtain a financial return.
- ▶ Those in which a single fund seeker and a single offeror of funds (investor), who wants to obtain a financial return, are put in contact, or in which such financing is made with own resources of the entity managing the platform.
- ▶ Those involving factoring transactions in which investors acquire a portion of a credit right over an invoice payable to the recipient. This is also known as crowdfactoring.

¹³⁰ Please note that the acronym is in Spanish.

¹³¹ Crowdfunding Regulations, subsection 4.1.1.

¹³² Crowdfunding Regulations, subsection 4.1.2.

c. Regulatory Capital and Net Stockholders' Equity

In accordance with the Regulations, Management Companies must meet the following requirements:

- ▶ They must have a regulatory capital equal to or greater than PEN 300,000, fully subscribed and paid-up in cash. This amount will be updated on an annual basis.
- ▶ During the first twelve (12) months, their net stockholders' equity may not be less than 70% of the regulatory capital required. In the second year, it may not be less than 80%. After such term, it must be equal to or greater than the regulatory capital required.

d. Regulatory Information

Management Companies must comply with the following provisions, among others:

- ▶ The maximum limits per project, per recipient and per non-institutional investor established in the Crowdfunding Regulations.
- ▶ Subject to prior notice to the SMV, certain additional services may be offered, such as:
 - ▶ Carry out the collection of the obligations undertaken by recipients.
 - ▶ Offer tools, applications or other utilities enabling the investor to pre-select from among the projects published those in which it will invest, based on objective criteria. This must be done before giving the investment instruction.
 - ▶ Provide training in matters related to the crowdfunding activity.
- ▶ Information on the projects published must be submitted to the SMV as well as periodical and occasional information, such as the unaudited individual interim financial statements and supplementary information, audited individual financial information as of the close of each

year, and the Significant Events, until the day following the occurrence of the event.

- ▶ Significant Event means the situations, acts, facts, decisions, agreements or contingencies affecting or that may affect the development of the activities of the Management Company or its Economic Group. It also includes the information to be provided to the SMV for supervision and control purposes.
- ▶ The Management Company's equity resources accounts must be segregated from those used to channel the recipients' and investors' funds. To this end, escrow bank accounts, trusts managed by SBS-supervised entities or e-money accounts may be used.
- ▶ Management Companies are prohibited from developing certain activities, such as the following:

- ⊘ Administer investors' funds.
- ⊘ Grant credits or loans to recipients and/or investors.
- ⊘ Provide financial advisory and/or investment recommendations on the Projects published in their or third-party platforms.
- ⊘ Participate directly or indirectly as recipients or investors in the projects offered through the platform, except for those cases contemplated in subsection 36.6 of the Crowdfunding Regulations.
- ▶ Have, among others, the following manuals: (i) Manual on Organization and Duties; (ii) Operating Procedures; (iii) Collection Manual, if collection services are offered; (iv) Money Laundering and Terrorist Financing Manual; (v) Code of Conduct; (vi) a Business Continuity Management Document; and (vii) a Cybersecurity and Information Security Management Document.

It is worth noting that Management Companies that were operating before the publication of the Crowdfunding Regulations will have a term of six (6) months from May 21, 2021 to apply for the Authorization to Operate.

Crowdfunding

Interview with the Regulatory Body



Interview conducted by
SMV Deputy Research,
Development and Innovation
Superintendency

1

What are the advantages of Crowdfunding for recipients and investors as compared to other financing and investment alternatives?

The accelerated development of new information technologies applied to financial services has given birth to innovative financing and investment mechanisms such as crowdfunding platforms, which contribute to the financing of basically micro- and small enterprises and the materialization of various ventures and which offer an investment alternative with returns for different risk profiles.

Along these lines, the advantages of crowdfunding for recipients include: Access to a financing source with less requirements and demands, which contributes to an increased financial inclusion; cost and time reduction, which contributes to filling the financing gap existing primarily in segments such as MSMEs, ventures and startups; access to a 100% digital financing process, including advertising, contract forms and signatures, receipt of funds, use of the funds, among others. Additionally, crowdfunding provides higher visibility or exposure of new projects or ventures to investors and the general public.

Similarly, the advantages for investors include: A wider range of financial products offered, which makes it possible to invest in startups with growth potential belonging to several economic sectors, representing a new alternative for the diversification of their investments; access to higher profitability levels,

as compared to other financial products, according to their risk expectations; and the possibility of investing in a SMV-regulated scheme under clear rules and with digital information channels.

Recognizing the above-mentioned advantages, it was deemed necessary to create a regulatory framework that would ensure the proper development of such activity in Peru. Thus, Title IV of Emergency Decree 013-2020, which promotes the financing of MSMEs, ventures and startups, introduced rules for the regulation and supervision of crowdfunding. Such title was subsequently complemented by the Peruvian Securities and Exchange Commission (SMV) through Superintendent's Resolution 045-2021-SMV/02 dated May 20, 2021.

2

What are the risks associated with crowdfunding and why is its regulation justified?

While it is true that crowdfunding entails significant advantages as an innovative financing and investment mechanism, it is also important to state that certain risks are associated with such activity, which are sought to be mitigated at the international level through appropriate regulation and supervision schemes, without this implying a limitation on its development. In Peru, this role has been assumed by the SMV.

Accordingly, the primary risks associated with crowdfunding include: the recipient's counterparty risk or default risk, meaning that the project promoter does not comply with the payment obligations pursuant to the terms and conditions agreed, that the project's expected return is not achieved, or even that the recipient omits important information causing it to make bad investment decisions. Likewise, as crowdfunding is a technology-based activity, there is an operating risk derived from possible errors in the systems, models and processes of platforms, including cybersecurity risks that could cause problems in the execution of transactions or in personal data protection.

There is also a liquidity risk that would materialize if it is not possible to transfer the titles or rights acquired due to the lack of a secondary market, as well as the possibility that the

managers of crowdfunding platforms or promoters of projects could engage in undue behaviors affecting the regular and proper development of the activity.

In this context, the regulation and supervision of crowdfunding are justified not only by the existence of several risks inherent in this type of activity, such as those mentioned above, but mainly by the need to protect those investors who provide their funds in exchange for a financial return. Therefore, some of the main principles of the regulatory framework designed by the SMV are flexibility and adaptability, considering the dynamism of technology-based innovation and the conviction that this is a developing industry in Peru. For this reason, the purpose is for the regulation to be flexible enough to offer a safe framework for those involved.

Likewise, it should be highlighted that the regulation and supervision scheme approved by the SMV is based on the recognition of the peculiarities and development level of crowdfunding in our country, so that it is treated differently from a traditional financial activity, gradually introducing several aspects, demands and/or requirements that allow for an orderly development of this activity, and recognizing its potential as an alternative financing and investment mechanism, but also recognizing how important it is to carry out this activity under an investor protection framework.

3

Was the crowdfunding activity being developed before the entry into force of Emergency Decree 013, which promotes the financing of MSMEs, ventures and startups or were there any legal constraints for their development?

Prior to the entry into force of Title IV of Emergency Decree 013-2020 on April 22, 2020, the securities crowdfunding activity faced some limitations for its development, given that, pursuant to the Consolidated Text (TUO) of the Securities Market Act (LMV) all securities within the framework of a public offer must be necessarily registered with the Public Registry of the Securities Market (RPMV) and, therefore, they must be subject to the performance of the obligations established to conduct a public offer.

For its part, loan crowdfunding did not face any legal limitations prior to the entry into force of Title IV of Emergency Decree 013-2020, provided that there was no financial intermediation. However, the dynamics of this industry and its advancement in the country made it necessary to expressly recognize such modality in the legislation and establish the conditions under which it would be carried out, particularly in order to prevent it from overlapping or colliding with other activities reserved for SMV- or SBS-supervised entities.

Precisely, taking into account that, as from the entry into force of Title IV of Emergency Decree 013-2020, crowdfunding activities could only be performed through platforms administered by duly authorized joint stock corporations organized in Peru, the SMV approved SMV Resolution 005-2020, which established a legal framework applicable to companies organized in Peru that were engaged in loan crowdfunding activities so as to allow them to continue carrying out their transactions under their own business model and firm name, until the respective regulations were approved.

Such SMV initiative made it possible not only to give those companies that were developing loan crowdfunding activities

the opportunity to continue operating, but also to have information on and contact with the participants in this industry from the very beginning, which was undoubtedly a key factor in the regulatory design process.

4

Considering that the new Crowdfunding Regulations have been approved, what are the most important regulatory requirements to be fulfilled by crowdfunding platform Management Companies?

As previously stated, the regulatory framework for crowdfunding has been developed under the best standards regulating such activity at the international level and in keeping with the general principles recognized as guiding principles of the regulatory policies of the countries belonging to the Pacific Alliance. In such context, the regulations include several conduct-related obligations and prudential parameters applicable to the crowdfunding platform Management Companies seeking, on the one hand, to ensure that they have the equity, capital, technological and other resources required to adequately provide the services contemplated by the regulations and, on the other hand, to mitigate the intrinsic risks posed by an activity like crowdfunding.

Thus, once a crowdfunding platform Management Company has satisfied the requirements for obtaining the license to operate as such, it must comply - among others - with the following regulatory requirements:

- ▶ As regards financial requirements, as from the commencement of its operations, have a regulatory capital equal to or greater than the updated amount of PEN 300,000, fully subscribed and paid-up in cash. Furthermore, it must have at all times a net stockholders' equity equal to or greater than the regulatory capital established. This condition will not apply during the first twenty-four (24) months after the operating license is obtained (70% in the first year and 80% in the second year).
- ▶ Keep at all times the Management Company's equity resources accounts segregated from those used to channel the recipients' and investors' funds.

- ▶ Provide the infrastructure, services and systems required to carry out the relevant operations, enabling to connect recipients and investors before, during and after the project financing.
- ▶ Facilitate mechanisms to ensure that investors know the identity of recipients and at least the information required by the regulations before they give the investment instruction.
- ▶ Receive and publish projects in the best interest of recipients and investors, for which purpose Management Companies must have a methodology to identify, select and classify recipients and projects through an objective analysis of the information supplied.
- ▶ Serve recipients and investors through effective communication channels.
- ▶ Implement a policy to protect the data of recipients, investors and projects.
- ▶ Have in place internal control policies and guidelines according to its needs, size and services offered.

5

Are there any limitations for a recipient or investor to participate in a crowdfunding platform?

In line with the provisions of Emergency Decree 013-2020, and taking into consideration the comparative legislation of countries such as Brazil, Colombia, Mexico or Spain, the regulations established parameters that seek to limit the exposure to a project by the same investor, mitigating the risk assumed by investors towards third parties, and to ensure the participation of a plurality of investors.

In this context, recipients are subject to the following limits:

- ▶ Based on the project amount: Personal projects may not exceed 50 Tax Units (UIT) and the maximum financing term must not exceed three (3) years. Business projects may not exceed 500 UIT.
- ▶ Based on the amount received by the recipient: Each recipient may not receive as crowdfunding an amount in

excess of 100 UIT in the case of individuals and in excess of 750 UIT in the case of legal entities. It is possible to request successive crowdfunding rounds for a total amount not exceeding such limits during the twelve (12) previous months.

- ▶ For their part, investors are subject to the following limits.
- ▶ Non-institutional investors: They must not invest more than 20% of the total amount of a project and may not invest, in the last twelve (12) months, more than 20% of their total annual income or their total net stockholders' equity, whichever is higher.
- ▶ The foregoing limits do not apply to institutional investors, and the Management Company must guarantee the plurality of investors in the project; in no case may a single investor participate.

It is worth noting that, while the limits in the comparative legislation are diverse and for different amounts, it should be recognized that there is a coincidence in the limits established in the regulation of crowdfunding to mitigate the risks of such activity.

6

What do you consider to be the main challenges to spread crowdfunding in Peru?

Undoubtedly, the approval of the regulatory framework of crowdfunding is a great step towards promoting the development of such activity. Also, we consider that such framework has been developed according to internationally accepted general guidelines adapted to our reality and primarily based on a permanent interaction with the main industry players.

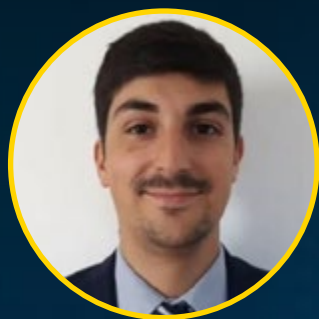
In such context, we are aware that the orderly development of crowdfunding entails assuming several challenges and tasks, such as disseminating the advantages and risks inherent in crowdfunding as an innovative financing and investment mechanism, as well as the regulatory mechanisms and scopes established to mitigate the risks of such activity; strengthening

and maintaining permanent communication channels with the main industry players, so that the regulation may quickly respond to any limitation that can be inhibiting the development of crowdfunding; promoting joint work between the public and private sectors to improve connectivity and bring technology closer to the largest number of citizens, thus facilitating the provision of and access to financial services through technology, such as crowdfunding, among others.

While we are aware that this is not an easy task, we are convinced that the joint work to be performed by the Regulatory Body and the industry players will be key to attain the objective set. Along these lines, we must highlight the different mechanisms and instruments implemented by the SMV to maintain a permanent dialog with the main participants in the markets under supervision, such as the citizen consultation processes or coordination meetings with the various economic agents in the market. This has certainly allowed us to maintain a permanent contact with our supervised parties and this will not be the exception in the case of crowdfunding, thus reflecting the full willingness of the SMV to receive all the comments and/or suggestions of the different economic agents that wish to contribute to the development of the markets under supervision.

Benefits of Crowdfunding for Investors and Recipients

Interview with an expert



Valentin Bonnet
Associate Founder in
Inversiones.io

1

What are the benefits of crowdfunding for investors as compared to banking products (e.g., time deposits) or other forms of investment in the securities market?

- Crowdfunding offers a high, very competitive profitability as compared to the products provided by the traditional financial system players.
- Likewise, crowdfunding offers a fixed return as compared to the securities markets (shares) which enables investors to project their earnings.

2

What are the benefits of crowdfunding for recipients as compared to other forms of financing offered by banks or the securities market?

The crowdfunding process is simpler, faster and quicker, and only takes a few days, given that it does not require so many documents as in the case of banks.

Crowdfunding Evolution

3

How has the crowdfunding market evolved in Peru over the last several years? Has this evolution been different to that of other countries in the Region?

In Peru, two types of crowdfunding are available and the number of active companies in the market is still small, considering those that effectively meet the Peruvian legal requirements such as: the deposit must be in the account of a trust; they must have an active digital platform, among others. This situation differs from other countries such as Brazil and Mexico, where there are many active crowdfunding companies.

Nonetheless, Peru is one of the few countries that have enacted crowdfunding regulations (together with Mexico) which must be highlighted because some countries impose the obligation to request an authorization from the competent superintendency but they do not have any regulations, i.e. clearly defined rules.

4

Is the crowdfunding activity widespread and has it been adopted by the Peruvian market?

No, the market is still much undeveloped.

5

What do you consider to be the main challenges to spread the crowdfunding industry in Peru?

Confidence in 100% digital financial products and financial education.

6

With regard to the projects, in what economic sectors is financing usually requested via crowdfunding?

There are no limits, as all the sectors could require this product. However, we can state that crowdfunding benefits in particular small companies that may find difficulties in obtaining financing from banks, or companies in the process of being formalized.

Regulation of Crowdfunding - Creation of a Crowdfunding Management Company

7

Considering that the new Crowdfunding Regulations have been enacted, what are the most important new regulatory burdens that recipients, investors and platform management companies must take into account?

- ▶ The need to have a trust
- ▶ Having a minimum net stockholders' equity; and
- ▶ Having a favorable opinion issued by an external auditor

8

Are there any limitations for a specific user to invest in a crowdfunding platform?

Non-institutional investors must not invest more than 20% of the total amount of a Project and may not invest, in the last twelve (12) months, more than 20% of their total annual income or their total net stockholders' equity, whichever is higher.

6

Digital Wallets

a. Digital Wallets in the Peruvian Context

A digital wallet is a mobile application that allows users to initiate a transfer of funds directly from the mobile phone.

Digital wallets may be linked to bank accounts. Thus, a transfer initiated from a digital wallet will imply the transfer of funds from the bank account associated with the mobile application. A successful example of this type of digital wallet is Yape, owned by “Banco de Crédito del Perú” (BCP).

There are also digital wallets consisting of e-money accounts. In Peru, the issuance of e-money is subject to robust regulation. E-Money Issuance Companies (EEDC)¹³³ are companies authorized by the SBS to issue and carry out e-money transactions. Banks and other financial entities are also authorized to issue e-money.

Emergency Decree

013-2020:

The limit of one (1) UIT per transaction was suppressed for general e-money accounts. Likewise, by SBS Resolution 1262-2020, the amount of transactions for simplified e-money accounts was increased from PEN 1,000 to PEN 3,000.

To favor interoperability among e-money issuers, more than 30 e-money issuers gathered to launch the Bim digital wallet, operated by “Pagos Digitales Peruanos” (PDP). This digital wallet operates as an e-money account, which can be opened from a mobile phone selecting one of the issuers taking part in the initiative. Bim allows making transfers, recharges, withdrawals and utility payments in general.

Because they enable the user to carry out remote transactions, digital wallets have been very useful in the context created by the COVID-19 pandemic. In this regard, the number of e-money account holders increased between June 2019 and June 2020 from 950,000 to 1.3 million approximately,¹³⁴ which would evidence the predisposition of the Peruvian market to adopt this new type of services.

Furthermore, the regulatory context of e-money accounts has been amended to allow transactions for larger amounts and to facilitate access to them. Thus, by Emergency Decree 013-2020, the limit of one (1) UIT per transaction was eliminated for general e-money accounts. Additionally, SBS Resolution 1262-2020 increased the amount of transactions for simplified e-money accounts from PEN 1,000 to PEN 3,000.

The importance of digital wallets was reinforced by the fact that they were recognized as a means of payment to channel the benefits granted by the Peruvian State as a result of the Health Emergency.

Thus, by Emergency Decree 056-2020, E-money Issuing Companies and all other e-money issuing companies were allowed to open accounts in the name of the beneficiaries identified by the State entity without requiring the prior execution of an agreement and the acceptance by the account

¹³³ Please note that the acronym is in Spanish.

¹³⁴ SBS; Peru; Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Fund Systems; 2020.

holder.

Finally, as indicated above, the Crowdfunding Regulations prescribe that an e-money account can be used to channel the funds of recipients or investors. Thus, a new use was recognized for e-money.

b. E-Money Issuing Companies

As previously stated, e-money can be issued by a financial entity or an EEDE. In the case of EEDEs, it is necessary to be clear about what this activity entails and about their characteristics and requirements, which are mainly established in the Regulations on E-Money Issuing Companies, approved by SBS Resolution 6284-2013.

First of all, EEDEs are providers of complementary and associated services and their core business is the issuance of e-money. They cannot grant loans against the funds received and may only carry out transactions related to their main purpose.

With regard to their regulatory capital, it amounted to PEN 2,833,598 according to Circular Letter G-212-2021 issued by the SBS. Just like the other SBS-supervised entities, their regulatory capital is updated on a quarterly basis. EEDEs are also under the obligation to create a trust in an authorized company for 100% of the issued e-money as guarantee. This trust will be solely intended to back e-money account holders. The value of such trust must be greater than or equal to the e-money issued, either at all times or at the daily close of operations.

As established by SBS Resolution 01772-2021, until June 30, 2022, EEDEs may use immediately available deposits held in "A+" rated multi-transaction companies as an alternative to the guarantee described above.

It should be mentioned that the trustee may invest the funds from trust in immediately available, interest-bearing deposits held in "A+" rated multi-transaction companies. Also, up to 30% may be invested in Public Treasury bonds or in financial instruments issued by BCRP and, finally, in other liquid assets authorized by the SBS.

The characteristics to be met by the e-money issued are set out in Law 29985 and its Regulations, such as the following: It must be accepted as a means of payment by entities or persons other than the issuer; it must be issued for an amount equal to the funds received; it must not be a deposit or bear interest; and it must be convertible into cash money at nominal value.

c. Interoperability in Digital Wallets

One of the characteristics most preferred by users of digital wallets is that they allow users to carry out payment, collection or transfer transactions in general in a fast and convenient manner. However, one of the current challenges for the providers of these services, whether through an EEDE or a financial institution, is to achieve interoperability between platforms.

As set forth by Law 29985, interoperability refers to the possibility of users performing transactions among them, no matter who the financial service provider is. In other words, interoperability implies that the users of a given digital wallet may carry out transactions directly with the users of other wallets.

While the number of e-money account holders is growing, the need to contract with several providers is deemed to be an inefficient burden for the user and the market. This implies that e-money accounts must be opened in the various providers selected, instead of performing transactions directly among them. This gave rise to the BIM Electronic Money Payment Agreement (or APDE BIM) which allows processing e-money transfer orders from clients of issuers participating in APDE BIM, whether they are financial system companies or EEDEs.¹³⁵

¹³⁵ BCRP; Financial Stability Report, November 2020. Box 4: Interoperability in the Peruvian Payment Industry.

d. Digital Wallets and Financial Inclusion

As explained in previous sections of this document, the current Health Emergency has increased the demand for financial products that can be acquired and operated digitally. In this regard, the existing gap due to the lack of infrastructure in the traditional financial system has been reduced.

One of the factors of such reduction is the presence of new digital wallets in the market and the role they played in the process of delivering the economic subsidy called “Bono 600.” As noted in “El Peruano” Official Gazette, by the end of March 2021, 407,925 beneficiary households were enrolled in the digital wallets offered by Yape, Tunki and BIM.¹³⁶

Consequently, a significant part of the population has begun to learn about and adopt the financial services. Furthermore, the remote collection and payment facilities, and the possibility of converting the amounts into cash money, have attracted new users to digital wallets. It should be noted that such users include individuals and legal entities or ventures that view the possibility of receiving payments through these digital wallets as an alternative.

Undoubtedly, due to the dynamism, speed and convenience offered by digital wallets, the process of incorporation into the financial system has not been tedious or implied any displacement for the user to contract them. Thus, the user's risk of exposure to COVID-19 is reduced and, eventually, the possibility of opening an account in the traditional banking system would be considered.



¹³⁶ “El Peruano” Official Gazette: *Bono 600: pago del subsidio mediante billeteras digitales promueve la inclusión financiera*; 2021.

7

Payment Solutions

There is a clear worldwide trend toward the adoption of digital payment solutions. One of the main reasons for this trend over the course of the last year has undoubtedly been the COVID-19 pandemic. The lockdown and preventive measures needed to reduce the spread of the virus made the acceptance of digital payments unavoidable.

However, the use of digital payments does not stem exclusively from efforts to fight COVID-19. In fact, the adoption of digital payments is viewed as helping to achieve the Sustainable Development Goals (SDGs) promoted by the United Nations.

International alliances such as the Better than Cash Alliance, which bring together governments, NGOs, and companies from all over the world, have committed to the adoption of digital payment methods that will allow more people to form part of the digital economy and gain access to safe, affordable, and more transparent means of payment.

a. Contactless Payment

The need for social distancing in the fight against COVID-19 has driven the growth of contactless payments. Contactless payments refer primarily to payment solutions with cards in which all one needs to do is to hold the payment instrument over the point of sale (POS). In other words, it is no longer necessary to swipe a card's magnetic stripe or insert it into the POS.



Contactless cards

These cards function using a wireless technology known as Near Field Communications (NFC) which permits data transmission between two devices at a very short distance.

Contactless card payments can be quicker and more secure, avoiding the need to hand over one's card when making a purchase and thus reducing the chances of fraud or cloning.

Another recent development is the use of wearables. The best known of these devices are smartwatches, which offer access to different apps, similar to a smartphone. The novel aspect is that in addition to using them for calls and messages, it is now possible to make payments in different establishments using smartwatches.

In 2020, Visa launched the Card Enrollment Hub for Latin America and the Caribbean, which allows credit and debit card issuers to store the credentials of the cards they have issued in wearable devices. This makes payments simpler and quicker, without the need to input numbers or handle cards whenever the user wishes to make a purchase.

b. Augmented or Virtual Reality Payments

One of the latest trends in means of payment are augmented or virtual reality payments. These are digital payments made in a physical or in-person environment, taking advantage of the fact that most consumers have their smartphones with them at all times.

This combination of virtual and physical environments is now being implemented in different sectors, including retail, which

has been dubbed “phygital experience.” Big tech companies such as Amazon are betting on these types of innovative experiences, e.g., with the Amazon Go store, which allows consumers to buy goods without the need for a cashier.

Visa and Mastercard are also developing applications and innovations involving the use of augmented reality. Mastercard has launched an application that brings to life its card’s benefits via a photorealistic augmented reality experience. Visa, for its part, has collaborated with companies such as Blippar to make augmented reality payments when buying clothing.

c. Multibank Instant Payments

In some countries in Latin America, integrated instant digital payment systems have been launched at the government’s initiative. The two best known cases in the Region are CoDi in Mexico and Pix in Brazil. To encourage transactions to go through the banking system, the Mexican government promoted a cashless payment system. In 2019, Banco de México launched the Digital Collection Platform or “CoDi.” To use CoDi, users must download the mobile application and have an account in one of the financial institutions involved in this initiative. CoDi allows money to be sent and received at no cost through electronic transfers at any time and on any day of the week.

Along the same lines, Banco Central do Brasil launched its own instant payment system, known as Pix, in late 2020. This payment method is offered by both financial institutions and FinTech companies. In fact, financial or payment institutions with more than 500,000 active customer accounts are required to offer this service to their users. Pix also allows for transfers at any time of day and on any day of the week, including holidays.

In Peru, the development of instant payments has mainly been a private sector initiative. In early 2020, the Peruvian banks Interbank, BBVA, and Scotiabank launched PLIN, an instant payment system that works via internet or mobile banking. This system has earned positive feedback from users.

d. Payment Security

Digital payments are intended to be a quick, easy alternative to traditional cash payments. However, this does not mean we should neglect one of the most essential aspects of this technology: security.

In recent years, there has been an increasing implementation of new security measures in the different payment instruments in use. One of these is the dynamic CVV.

A CVV is a code that can normally be found on the back of credit and debit cards and is used to identify the card owner and validate online purchases. As a unique code printed on the card, it can be used by third parties who become aware of the number.

The dynamic CVV seeks to improve user experience in internet purchases by using a unique code that changes every so often - typically no longer than five (5) or ten (10) minutes - and can be used to identify the cardholder and validate online purchases. Thus, the user can consult the dynamic CVV each time they wish to make an online purchase via mobile banking or internet banking, offering greater security in online transactions.

8

Cryptocurrencies

It has been just over ten (10) years since the appearance of the first cryptocurrency: Bitcoin. Several years afterwards, it was followed by the launch of Ethereum, proposing to create a decentralized ecosystem based on blockchain technology.

Since then, further innovations and use cases tied to cryptocurrencies and blockchain technology have increased at a dizzying speed, notable above all for their plurality, although without losing their essence: decentralization.

In Peru, according to the Statista Global Consumer Survey, 13% of Peruvians surveyed said they held or used cryptocurrencies in 2021, situating the country behind Argentina (21%) Colombia (15%) and Chile (14%).

a. Payments and Transfers

Bitcoin was created as a decentralized digital payment and transfer system. While the usefulness of cryptocurrencies as means of payment is currently up for debate due to their high volatility, more and more merchants are accepting them.

One of the innovations seen in recent years has been the appearance of stablecoins. The basic difference between stablecoins and traditional cryptocurrencies such as Bitcoin and Ethereum is that the value of stablecoins corresponds to that of other assets or currencies. For example, the stablecoin Tether has a unit value equal to the Dollar.

Bitcoin

from a high of USD 20,000 in 2017, this cryptocurrency hit a high of around

USD60,000
in 2021.

In addition to the increasingly widespread adoption of cryptocurrencies for making payments, cryptocurrencies have also become a more popular way of sending remittances. Sending money to family members abroad, was once the exclusive competence of financial institutions or money transfer companies. Nowadays, however, cryptocurrencies are a quick and secure option for sending funds to any country in the world.

b. Virtual Assets

Cryptocurrencies are often associated with virtual assets. In fact, they are also known as crypto-assets, due to the fact that many people acquire them with the goal of profiting from the increase in their value over time. Today, major investment funds and companies hold investments in crypto-assets, such as Grayscale, Tesla, and Square.

The possibility of significant earnings with crypto-assets has become evident in recent years. Taking the example of Bitcoin alone, its peak value has gone from USD 20,000 in 2017 to around USD 60,000 in 2021.

In regulatory terms, the Financial Technology Institution Regulation Act (FinTech Act) in Mexico has been one of the first to legally recognize cryptocurrencies as virtual assets. Additionally, in the area of money laundering prevention, the Financial Action Task Force (FATF) recognizes them among its forty recommendations as virtual assets.

Thus, there is a clear worldwide trend toward recognizing them as virtual assets, gradually shedding their categorization as currency.

c. DeFi

Decentralized finance (DeFi) is one of the latest trends in the cryptocurrency ecosystem. DeFi is a group of decentralized applications focused on providing financial services accessible to any user from anywhere in the world.

With DeFi tokens, it is not only possible to generate profit from the sale of cryptocurrency or trading transactions; different platforms built on blockchain now offer real financial products similar to those offered by traditional banks.

For example, it is now possible to hold savings in cryptocurrencies, accruing interest calculated annually based on the time you keep your cryptocurrencies locked up. It is also possible to grant and apply for loans in cryptocurrencies on a decentralized basis, without the need for a credit history. Normally, those taking out loans must leave collateral in cryptocurrency.

Examples of DeFi include Compound Finance and PoolTogether. The first of these is a platform that makes it possible to save cryptocurrencies while accruing interest, or to apply for loans in cryptocurrencies. The second platform is a no-loss lottery, in which you can obtain major earnings in each lottery on the platform just by locking up cryptocurrencies, which can be reused in each new lottery.

According to the website Coindesk, citing the CoinGecko platform, the total market capitalization for DeFi tokens as of April 2021 was USD 128 billion.

d. NFTs

One headline-grabbing trend during the early months of the year was the sale of completely digital works of art for millions of Dollars. These digital works were sold as non-fungible tokens, or NFTs. NFTs are tokens that are registered on blockchain that certify the ownership of virtual assets, such as a digital piece of art, and can be verified by anyone.

Unlike traditional cryptocurrencies, an NFT represents an asset with unique properties. In other words, while there may be many copies of this digital asset or good, the owner of the NFT is the only one who can prove it belongs to him or that he is the original owner.

This is possible thanks to blockchain, which is an immutable distributed ledger. Once ownership is registered, it cannot be changed unless the owner decides to transfer or sell the non-fungible token.

e. Cryptocurrency Regulation

Around the world, there have been various initiatives to regulate the issuing of and performance of transactions with cryptocurrencies. One of the most important of these is the proposed Regulation of Markets in Crypto-Assets (MiCA) applicable to the countries of the European Union, which proposes the regulation of different cryptocurrency-related services, as well as the categorization of different token types.

In Mexico, on the other hand, the publication of the FinTech Act has recognized cryptocurrencies under the category of virtual assets and regulates the transactions that may be performed

by financial technology institutions and credit institutions with these virtual assets. Certain other countries in the Region have regulated specific aspects of cryptocurrencies (e.g., money laundering prevention) although not on a comprehensive or specialized basis. In Peru, there are not yet any specific regulations on cryptocurrency transactions. As such, these transactions are subject to general legislation (e.g., the Civil Code). However, the SBS has publicly stated that regulations on anti-money laundering and combating the financing of terrorism applicable to cryptocurrency transactions will soon be published.

One of the most notable events of the year was the recognition of

Bitcoin as legal tender in El Salvador.

This recognition is unquestionably a significant milestone in the adoption of cryptocurrencies around the world.

However, major international financial organizations have spoken out against the new law recognizing Bitcoin as legal tender. For example, the International Monetary Fund (IMF) has expressed concern regarding the macroeconomic, financial, and legal questions raised by this move. Likewise, the World Bank refused to help the Central American country in the implementation of Bitcoin as legal tender.



Cryptocurrencies in Peru

Interview with an Expert



Rodrigo Neira
Acting CFO of Agente BTC

Cryptocurrency Adoption Level

1

What has the evolution of the cryptocurrency market in Latin America looked like over the past five (5) years?

It's been crazy in Peru. The percentage increase has been exponential. However, transaction levels are still well below their potential. Cryptocurrencies are not yet a relevant investment alternative for the average South American.

2

Regionally, which countries have the highest cryptocurrency adoption percentage?

In order: Brazil, Colombia, Argentina, Chile, and Peru.

3

How do you see the evolution and adoption of cryptocurrencies in Peru compared to other countries in the Region?

It's going well. More and more players are entering the market each day, but there aren't many companies seeking to democratize virtual currencies. They're looking to fight for the same clients that already comprise the market. We need more entrepreneurial commitment to reach more people and educate them.

Cryptocurrency Use

4

What do you see as the most common uses for cryptocurrency in Peru and other countries in the Region?

In Peru, people use cryptocurrencies in two ways:

- As a store of value to escape foreign exchange risk.
- As a means of remittance, buying a cryptocurrency in Soles in Peru with a view to exchanging that same cryptocurrency for a different currency in another country.

5

Stablecoins are known for not being volatile. What advantages are offered by their use in Latin America? What advantages do you see in the use of stablecoins in Peru?

The entry of stablecoins, if they are properly explained, offers peace of mind and confidence in people who are investing in cryptocurrencies for the first time. The interesting thing is that many people buy them without much context. All they've heard is that "they don't lose their value." A stablecoin as a means of

exchange makes complete sense, especially for transactions between countries outside of the banking system.

6

Currently, DeFi apps are on the rise. How much have these applications contributed to the growth of the cryptocurrency ecosystem? What additional advantages does DeFi offer users?

The underlying idea is to use cryptocurrencies in investment instruments, whether investing them as a loan, offering insurance, or just reinvesting them. The use of securities in DeFi has attracted much more interest from many people in buying cryptocurrencies. Now it's not only about having the currency but using it and investing it.

Regulation of Cryptocurrency Transactions

7

How important do you think it is for the development of this ecosystem to regulate cryptocurrency transactions? Are you in favor of a legal framework for the cryptocurrency industry, or do you think the currently applicable regulations are sufficient?

Regulations should be designed primarily with customers in mind, to make sure they do not become victims of fraud. If the regulations are intended to provide better customer service, I am 100% in agreement with regulating the market. If regulations are instead focused on perfect traceability for each person and do away with the privacy of the funds, this would eliminate the main reason that led the creators of these instruments to promote them.

8

How feasible do you think it is for companies providing cryptocurrency services (e.g., cryptocurrency exchanges) to be regulated and supervised by the local financial authority?

The key here is in how the regulatory body will validate the blockchain for each project, the majority of which are international. Maybe they could try conducting an audit on the securities held in each node an exchange, but it won't necessarily be possible to validate all of the transactions generated in a single cryptocurrency for a person residing in Peru. This would cause a great deal of friction. It would be like bringing bank transactions into the crypto world.

9

What are the biggest regulatory barriers you have faced during your day-to-day operations?

The lack of regulations and the need to adapt to the existing framework have been our main challenges. We have assumed that, as a company that provides services with virtual assets, we need to have money laundering and terrorist financing prevention controls, as well as terms and conditions to ensure customers are protected in view of the risks to which they are exposing themselves. Reviewing each customer and using internal policies to determine whether the transaction is legal or not has meant that, because there are no regulations, we've had to create our own compliance rules.

9

Foreign Exchange

Traditionally, foreign exchange transactions were carried out face-to-face. Before the COVID-19 pandemic, it was common to exchange currency at currency exchanges located in commercial areas, and it was not very difficult to find an exchange business in public spaces.

However, in recent years, platforms that offer completely virtual foreign exchange services have emerged, which has been possible thanks to the high rate of smartphone use in Peru, as well as the digital advancement of banking and financial entities.

a. Digital Foreign Exchange Platforms

Digital foreign exchange platforms represent one of the most successful FinTech innovations in Peru, with constant growth in recent years. One example of this is that the companies in this vertical increased from 31 companies registered with the SBS by the end of 2020 to 77 as of June 2021.

The growth is largely due to the digital infrastructure of the Peruvian financial system since almost all banking and financial entities offer internet banking or mobile banking services, which facilitate the transfer of funds between users and digital exchange platforms for trading currencies.



Digital exchange platforms have a series of benefits compared to traditional options in commercial establishments. Some of these advantages include:

1. Exchanging currencies at any day and time of the week, as well as anywhere.
2. Speed and good user experience.
3. Competitive prices.
4. Safer transactions, since carrying cash is not necessary.
5. Access to special offers and preferential exchange rates, depending on the platform's terms and conditions.

Furthermore, at least three (3) business models have been identified concerning digital foreign exchange platforms: (i) digital exchanges; (ii) foreign exchange markets; and (iii) foreign exchange auctions.

The first model consists of traditional exchange businesses offering their services through a digital platform. Much like with physical exchange businesses, the company behind the platform will be the one that carries out foreign exchange transactions with its own resources. Basically, the only thing that changes is the venue from a physical establishment to a virtual platform, while maintaining all of the advantages. Examples of this model are Kambista and Rextie.

The second model is more innovative and is based on the collaborative economy scheme used by many digital services, such as Uber or Airbnb. What the digital platform does, in this case, is connect two users interested in exchanging currencies.

Thus, in the event that two platform users reach an agreement regarding the sale of foreign currency, the exchange is made through electronic transfers. Fast and easy. An example of this model is Betriax.

The third one is an auction model. Basically, the digital platform works as a market in which different financial system entities offer an exchange rate. In this way, users will have several alternatives to choose from and go through with the foreign exchange with the lowest exchange rate offered. In this model, the platform does not carry out foreign exchange trading transactions directly, but it rather connects a user with the financial entity, both of whom will carry out the foreign exchange transaction. This is definitely a competitive option. An example of this model is Firbid.

b. Foreign Exchange and the Pandemic

With the declaration of the state of emergency and the lockdown measures adopted as a response to the COVID-19 pandemic, traditional currency exchanges that operated in commercial establishments were unable to continue offering their services.

In this context, digital exchanges emerged as the natural alternative for consumers who needed to continue carrying out foreign exchange transactions in the middle of the lockdown. Thus, foreign exchange trading operations increased through digital means, which mainly benefited foreign exchange platforms that had already been operating for some years, and allowed the emergence of more companies engaged in the provision of digital financial services.

Even the largest banks joined the trend of offering currency trading transactions through their internet banking or mobile banking services, offering more competitive exchange rates concerning the service offered in person at banking agencies.

c. Foreign Exchange and Financial Inclusion

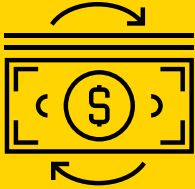
One of the characteristics of foreign exchange platforms is that, registered users are usually required to be bank account holders in order to send and receive funds. Thus, it is necessary to use bank accounts, as well as internet banking or mobile banking to access the digital currency trading service.

It should be noted that this requirement has led need to use bank accounts has led to a growth in the level of use of banking services, which has contributed to financial inclusion in the country. This is an indirect effect of the proliferation of digital foreign exchange platforms.

Even FinTech companies and entities of the financial system have seen the opportunity to establish partnerships to offer better financial products to their customers. This is the case with Kambista and Interbank, which have joined forces to facilitate the access of consumers to banking services. In this way, it is now possible to open 100% digital bank accounts from the Kambista platform.

d. Foreign Exchange and Regulation

Exchange houses and/or individuals engaged in the trade of foreign currency as a regular or business activity must register in the record of companies and individuals who carry out foreign exchange transactions of the SBS. Registration is also mandatory for companies that offer foreign exchange services through digital platforms.



In addition to registration, foreign exchange businesses must comply with the obligations related to the system for the prevention of money laundering and terrorist financing (SPLAFT¹³⁷) which is governed by the Regulations approved by SBS Resolution 789-2018. The following are some of the obligations that must be fulfilled:

1. Appointing a compliance officer, who will oversee the SPLAFT.
2. Carrying out due diligence concerning knowing their customers.
3. Approving a manual with procedures and mechanisms to manage and mitigate money laundering and terrorist financing risks, as well as a code of conduct.
4. Carrying out training in the prevention of money laundering and terrorist financing for company employees.
5. Reporting suspicious transactions to the Financial Intelligence Unit (UIF¹³⁸).

Foreign exchange businesses, whether physical or virtual, are not considered financial system companies, nor are they under rigorous supervision by the SBS. These entities are regulated to prevent money laundering and financing terrorist activities.

¹³⁷ Please note that the acronym is in Spanish.

¹³⁸ Please note that the acronym is in Spanish.

10

Remittances

Remittances or fund transfers abroad have always been an important part of the Latin American economy.

a. Remittances and the Pandemic

In April 2020, the World Bank predicted that the flow of remittances would fall by approximately 20% because of the economic crisis resulting from the COVID-19 pandemic. The loss of employment and the strict confinement measures were factors that influenced this fall. However, in countries like Mexico, the number of remittances increased by 9.4% during the first months of the pandemic, according to data published by Banco de México.

Also, according to the World Bank, the main factors that allowed the flow of remittances to not be drastically reduced compared to the years before the pandemic are: (i) the tax incentives granted in the countries of destination of migrants; and (ii) the greater use of digital currency to send money abroad.

+6.5%

Remittances received in Latin America and the Caribbean increased by 6.5% in 2020.

In Latin America, the flow of remittances has not been greatly affected. In fact, remittances received increased in Latin America and the Caribbean by 6.5% in 2020, according to World Bank data. Remittance flows to this region are expected to increase by 4.9% in 2021.

b. Remittances and Regulation

At the international level, regulation of remittances changes from country to country. Usually, the regulation to which entities engaged in providing fund transfer services abroad are subject focuses on the prevention of money laundering and terrorist financing. For example, in the United States, companies engaged in the transfer of funds are classified as Money Services Businesses (MSB) and are required to comply with the PLAFT regulations and be under the supervision of the Financial Crimes Enforcement Network (FinCEN).

At the local level, the SBS published a set of regulations governing Fund Transfer Companies (ETF¹³⁹). ETF are companies that require prior authorization to provide funds transfer services to the public. Notwithstanding the foregoing, said regulations provide an exception so that ordinary companies can engage in the transfer of funds without the prior authorization to operate as ETF, provided that they comply with the conditions established in said regulations.

c. Remittances and FinTech

As a result of the lockdown measures due to the COVID-19 pandemic, the use of apps that allow for international fund transfers began to increase exponentially. The introduction of digital transfers represents not only a new way to make remittances but also a more convenient way to send money for different reasons.

The traditional way of sending money abroad always implied going to a bank or similar agency to perform the transaction. In addition to paying service fees, the transfer could take one or more business days to be completed. Moreover, said agencies were open for business within a reduced schedule and the COVID-19 pandemic reduced access to them (e.g., reduction of staff or clients in the same establishment).

However, when sending money digitally, all these steps are

usually simplified. Commonly, transactions can be carried out completely online, which saves transportation costs and time in carrying out the procedure in person. In addition, in some cases, these transfers can be made without the need for a bank account, which allows many people not included in the financial sector to send or receive funds internationally.

All the factors mentioned above have allowed for the growth in number and capacity of FinTech companies engaged in the remittance sector, which provide their services through mobile apps or web platforms easily, quickly, and securely.

d. Remittances and Cryptocurrencies

One of the innovations in the way of sending funds abroad is that of cryptocurrencies or crypto assets. Today, it is possible to send cryptocurrencies anywhere in the world, for which you only need an internet connection and a wallet enabled for sending and receiving these crypto assets.

Sending funds via cryptocurrencies is a quick and simple method. It does not matter whether the money is sent on Sundays or holidays, nor the time of the day.

These characteristics have popularized the use of cryptocurrencies for remittances. In fact, in addition to FinTech companies engaged in sending funds abroad with cryptocurrencies, there are also entities in the financial sector that are adopting this type of technology for cross-border money transfers.

¹³⁹ Please note that the acronym is in Spanish.



11

InsurTech

The term InsurTech is used to refer to and explain the use of innovation potential technologies within the insurance sector, and their influence on the regulatory practices of insurance markets.

InsurTech activities mainly seek to apply technology in the insurance ecosystem, insurance company processes, and related activities, with the purpose of providing new solutions required by policyholders. These activities include, for example, the automation of records, automated sale of policies, risk analysis, and document filtering.

In the first quarter of 2021, InsurTech business financing reached an all-time high worldwide, raising USD 2.55 billion with 146 deals.¹⁴⁰

Total funding for the first quarter of 2021 grew 180% compared to the first quarter of 2020, where a sudden drop in funding occurred due to fears sparked by the COVID-19 pandemic. Also, compared to the fourth quarter of 2020, total funding grew by 22%.¹⁴¹

¹⁴⁰ Willis Towers Watson; Quarterly InsurTech Briefing Q1 2021.

¹⁴¹ Willis Towers Watson; Quarterly InsurTech Briefing Q1 2021.

a. Types of InsurTech Activities

According to the Mexican InsurTech Association,¹⁴² the activities in which InsurTech companies engage to provide efficiency in the value chain of the insurance ecosystem can be classified as follows:

► Comparison Activities:

They aim at providing platforms where users can simultaneously compare the costs and coverage of multiple insurance companies, based on different products. This initiative is used for vehicle insurance, health insurance, and business insurance.

► Digital Sales:

These are focused on making the hiring process completely virtual from the offer of the product to the purchase thereof. The advantages offered by this type of InsurTech companies are reflected in the increase in customer satisfaction, given that they allow taking out insurance policies in a simple, fast, and transparent manner.

► Loss Prevention and Claim Management:

Their purpose is the application of technology to different processes of claim management, such as streamlining the claim registration process through digital tools.

► Other Processes in the Insurance Industry:

Other InsurTech activities are aimed at using technology in different parts of the insurance value chain, such as for fraud detection, using artificial intelligence, drones, or various tools for site inspection and other information that may allow for data collection and better risk assessment. Another aspect in which startups participate is the administration of individual insurance policies for small and medium-sized businesses, as well as for corporate clients, through platforms with interactive and easy-to-use interfaces.

► Development of New Products and Business Models:

Their objective is to introduce new risk schemes or new business models for insurance companies, providing support in the analysis of conditions to make the process

easier and more efficient (e.g., using technologies that make it possible to identify risks other than those to which people and companies are normally exposed).

Notwithstanding the foregoing, other insurance business models are also emerging in the ecosystem, along with emerging technologies:

1. Peer-to-Peer (P2P) Insurance:

This is a business model in which policyholders can pool their capital, self-organize, and self-manage their own insurance, which works by creating groups of people with the same insurance. This generates advantages such as a lower fraud level as incentives are aligned or the possibility of recovering part of the premium paid. This model can be enhanced with the use of technologies such as DTL (Distributed Ledger Technology) which allows the model to be implemented on a larger scale.

P2P insurance is particularly beneficial for inclusive insurance markets since it reflects the structures based on pooling risks in low-income communities.

2. Usage-based Insurance:

This business model was introduced by auto insurance companies and consists of analyzing driving behaviors and the actual distance driven to apply auto insurance rates.

3. On-demand Insurance:

This business model specializes in covering only the risks that users face at any given time, making use of technological tools such as digital tracking and location services (e.g., personal accident insurance that only becomes effective while traveling on public transportation).

¹⁴² Mexican InsurTech Association; ¿Qué es el Insurtech en México? Fifth and Sixth Subsections; February 3, 2021

b. How does an InsurTech company work with an insurer?

According to the Mexican InsurTech Association,¹⁴³ insurers can work hand in hand with InsurTech companies to leverage their “agile pace of life” and InsurTech companies can participate in insurers’ processes to provide more efficient, safe, and personalized products to users.

This is because traditional insurers can be large companies with operational stability, but with complex internal processes to achieve rapid technology implementations. On the other hand, InsurTech companies are smaller companies and can more easily perform important experiments and validations in markedly shorter times, managing to develop processes and show results that are easy to replicate and escalate.

Moreover, the International Association of Insurance Supervisors¹⁴⁴ has also identified some benefits that InsurTech companies bring to the insurance ecosystem.

The main pillars in which this value is observed are:

- ▶ **Deeper and more fluid relationship with customers:** InsurTech companies provide access to more communication channels than those previously available. In this way, insurers can communicate with customers through brokers, the web, apps, and other channels simultaneously.
- ▶ **Better risk assessment and monitoring:** An improved analysis of risk-related data and the availability thereof in large amounts allow insurers to make much more sophisticated decisions to select, manage and prevent risks.

- ▶ **Better administrative processes:** The use of Distributed Ledger Technology (DLT) can contribute to achieving more efficient internal processes of insurers by automating and reducing duplication of processes.

However, the increase in work with various technological tools and large volumes of data also requires the adoption of security and privacy measures, which are aspects related to Personal Data Protection and Cybersecurity that are explained in the Miscellaneous section of the Guide.

Example of development:

A survey conducted by EY Australia¹⁴⁵ has revealed that 80% of insurers currently cooperate with an InsurTech company, mainly to obtain specific solutions within the business.

Likewise, Australian insurers, InsurTech companies, and insurance industry providers agree that they are ready to embrace digital innovation, working primarily on efficient administration, claims, pricing and underwriting agility, and the development of new products to offer differentiated proposals to the customers.

Notwithstanding the foregoing, the Australian ecosystem is still undergoing a transition period to reach the next stage of optimization, where the benefits of an InsurTech company will be fully taken advantage of.

To do this, it will be necessary to draw up a clear and organized roadmap that addresses problems not yet reviewed or addressed.

¹⁴³ Mexican InsurTech Association; *¿Qué es el Insurtech en México?* Second Subsection; February 3, 2021.

¹⁴⁴ International Association of Insurance Supervisors; Report of the 24th A2i-IAIS Consultation Call; Supervising InsurTech, September 2017.

¹⁴⁵ EY Oceania; Australian InsurTech sector poised to scale; 2020.

c. Technologies Used¹⁴⁶

Phones and Applications (Apps)	Artificial Intelligence (AI) and Machine Learning (ML)	Algorithms and Robo-advice
Thanks to mobile networks, cellphones, and internet access, it is possible to send short messages, use applications, and make large data transfers, which is relevant for insurance to reach emerging markets where there is no established distribution network.	The use of computer programs that can perform cognitive functions such as learning, problem solving, natural language processing, and the perception of movement and handling of objects allow various processes in the insurance industry to use data in real time and make a prediction of events possible (for example, vehicle thefts, health problems, and weather events). Other features include achieving better risk pricing, fraud prevention, claims management and resolution, or advice for prevention purposes.	Algorithms, which are part of AI, have enabled large trading orders to be executed in the financial sector at speeds and frequencies that are not possible by human traders. Likewise, robo-advice or automated advice is used in the insurance sector for investment management, comparisons, and quotes. According to the Organization for Economic Cooperation and Development (OECD) this type of advice could benefit citizens that do not have access to human advisers; however, the structure and use of these technologies must be adequate so that they do not give rise to negative results in the advice that may go unnoticed.
Smart Contracts	Big Data and Data Analytics	
<p>These are written as a programming code that can run by itself on a computer or a computer network, rather than in a traditional legal document stating the obligations, benefits, and penalties attributed to either party in various circumstances.</p> <p>These contracts are usually executed on blockchains or Distributed Ledger Technology (DLT) and allow people to sign contracts and execute business with strangers, usually over the internet, without the need for a centralized authority or intermediary. However, these contracts are limited because they cannot consider unforeseen circumstances, as the program does not know the actual events and only executes the actions of the contract.</p>	<p>The term big data refers to the storage of a large volume of data from different sources and at great speed. In addition, the term data analytics refers to the process of cleaning, inspecting, transforming, and modeling data to discover useful information, suggest and support decision-making.</p> <p>In the insurance ecosystem, both tools are used in various processes such as product offerings, risk selection, pricing, cross-selling, claims prediction and fraud detection, customized product offering, and automated underwriting.</p>	

¹⁴⁶ (i) OECD; Technology and innovation in the insurance sector; 2017. (ii) International Association of Insurance Supervisors; Report of the 24th A2ii-IAIS Consultation Call; Supervising InsurTech. 2017.



Miscellaneous

- | | | | |
|---|---|---|--|
| 1 | Tax Regime | 5 | Information Security and Cybersecurity |
| 2 | Anti-Money Laundering and Countering Financing of Terrorism | 6 | Regulation of Intellectual Property |
| 3 | Personal Data Protection Regulations | 7 | Labor Legislation |
| 4 | Antitrust Mergers & Acquisitions | 8 | Accounting Standards |

1

Tax Regime

At present, there is no specific tax regulation on FinTech products or transactions.

a. General Aspects

1. Tax Regime

► Corporate Income Tax

Companies domiciled (incorporated) in Peru are subject to Income Tax on their worldwide source income.

The tax year ends on December 31, without any exception. In general terms, income tax returns for companies, branches, and individuals must be submitted by March 31 of the following tax year, according to the due date of each taxpayer.

The income tax rate for companies is 29.5% unless a special regime applies, and it is levied on net income, which is determined by deducting the expenses incurred in generating income or maintaining the source. Certain types of income, however, must be assessed in the manner specified by law, and some expenses are not fully deductible for tax purposes. Additionally, profit sharing in favor of individuals and non-domiciled taxpayers by domiciled companies and branches, permanent establishments, and agencies of foreign companies is taxed at a rate of 5%.

► Non-domiciled taxpayers, branches, agencies, and other permanent non-domiciled establishments

Non-domiciled companies, branches established in Peru and permanent establishments are only subject to tax on their Peruvian source income.

► Advance payments

Every month, companies and branches of foreign companies must make advance payments of the income tax they must pay at the end of the year. These payments are determined as an estimate of the net monthly accrued income of the company.

2. Deductions Accepted

► Expenses

In general terms, all corporate expenses for the generation of income or maintenance of the income source are accepted as deductions for the purpose of determining the corporate income tax. This rule is subject to certain exceptions and limitations expressly established in the Income Tax Act.

In this regard, below we will list some limitations that may be of interest to FinTech companies or their customers:

► Interest

As a general rule, interest on debts and expenses arising from the incorporation, renewal, or cancellation thereof are deductible provided that they have been incurred to acquire goods or services related to the obtaining or production of taxable income in the country or to maintain their source.

The interest referred to in the previous paragraph is only deductible to the extent that it exceeds the amount of income obtained from exempt and non-taxable interests. For this purpose, the exempt or non-taxable interest generated by securities acquired in compliance with legal provisions or regulations issued by Banco Central de Reserva del Perú (BCRP) will not be taken into account, nor those generated by securities that yield an interest rate, in national currency, not higher than 50% of the monthly Average Lending Rate in Domestic Currency (TAMN) published by the SBS.

In the case of banks, financial companies, and factoring companies, for the purposes of deducting interest, the existing proportion between taxed financial income and exempt and non-taxable financial income must be established, and charges will only be deducted as expenses in the proportion established for the taxable income.

The interest on installment plans granted per the Tax Code will also be deductible.

► EBITDA

Net interest will be deductible up to 30% of the tax EBITDA for the previous year.

It is possible to carry forward the net interest that has not been deducted as per the limit set for up to the four (4) immediately subsequent tax years.

The EBITDA tax limit will not be applicable to companies in the financial and insurance system, factoring companies, or to other taxpayers based on their income level, the development of certain projects, or certain indebtedness through the stock market.

► Organizational and Pre-operating Expenses

Organizational expenses, initial pre-operating expenses, pre-operating expenses originated by the expansion of the company's activities, and interest accrued during the pre-operating period may be deducted, at the taxpayer's choice, in the first fiscal year or amortized proportionally in a maximum term of ten (10) years.

► Expenses Common to Taxable and Non-taxable Income

When the expenses necessary to produce the income and maintain the source jointly affect taxable, exempt, or non-taxable income, and are not directly attributable to one or the other, the deduction will be made in proportion to the direct expense attributable to the taxed income.

In cases where it is not possible to establish the indicated

proportionality, the amount resulting from applying the percentage obtained by dividing the taxable gross income by the total taxable, exempt and non-taxable gross income.



3. Exchange Difference

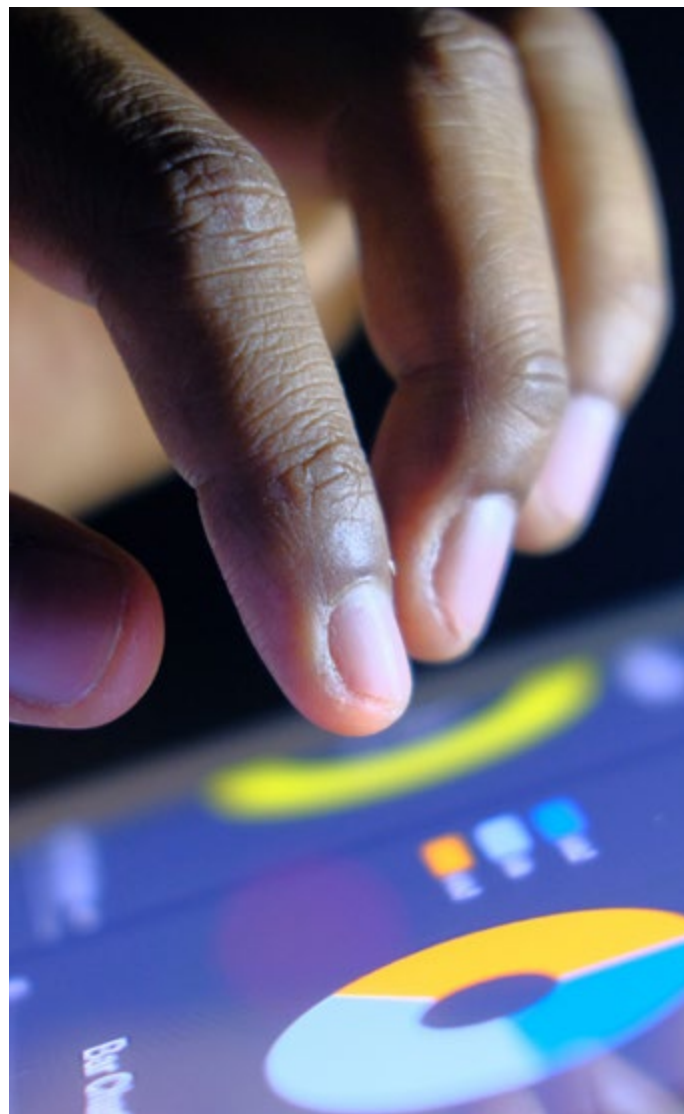
Exchange differences originated from transactions that were the usual object of the taxable activity, as well as those that occur due to the credits obtained to finance them, constitute eligible earnings to assess net income.

To assess income tax for transactions in foreign currency, the following rules will apply:

- ▶ Transactions in a foreign currency will be recorded at the exchange rate in effect as of the transaction date
- ▶ Exchange differences resulting from the exchange of foreign currency into domestic currency will be considered as profit or loss for the year in which the exchange was made.
- ▶ Exchange differences resulting from payments or collections for transactions agreed upon in foreign currency but recorded in local currency that occur during the year will be considered as profit or loss for said year
- ▶ Exchange differences resulting from expressing foreign currency balances corresponding to assets and liabilities in local currency must be included in the assessment of the taxable amount of the period in which the exchange rate fluctuates, considering it as profit or loss.
- ▶ Exchange differences resulting from related and fully identifiable liabilities in foreign currency, whether existing or in transit as of the balance sheet date, must be applied to the net value of the corresponding inventories. When it is not possible to match the inventories with the liability in foreign currency, the exchange difference must be applied to the profit or loss for the year.
- ▶ Exchange differences originated by liabilities in foreign currency related to existing or in-transit fixed assets or other permanent assets as of the balance sheet date must be applied to the cost of the asset. This is also applicable in cases where the exchange difference is related to payments made in the year. The depreciation of the

assets thus readjusted for exchange differences will be made in installments in proportion to the number of years remaining to fully depreciate them.

- ▶ Permanent investments in securities in a foreign currency will be recorded and maintained at the exchange rate in effect on the date of their acquisition when they qualify as non-monetary items.



4. Market Value Rules

In the case of sales, contributions of goods and other transfers of property, provision of services, and any other type of transaction of any sort, the value assigned to the goods, services, and other benefits will be the market value for income tax purposes.

If the assigned value differs from that of the market, either due to overvaluation or undervaluation, the National Superintendency of Customs and Tax Administration (SUNAT) will proceed to adjust it for both the acquirer and the transferor.

5. Transfer Pricing

Transfer pricing rules are based on the principle of free competition ("arm's length") as interpreted by the Organization for Economic Cooperation and Development (OECD).

In addition, depending on the amount of the transactions carried out with related parties and/or with non-cooperative territories, it will be mandatory to submit reports and tax returns as required by SUNAT.

6. Credit on Account of Income Tax Paid Abroad

Income tax paid abroad on foreign source income under the Income Tax Act may be deducted from the tax payable provided that certain rules established by the Peruvian legislation are met.

In certain cases, corporate income tax paid by a subsidiary abroad may be applied (indirect tax credit system). The credit amount that remains unused in the taxable year may not under any circumstances be offset in other years or be claimed for a refund.

7. Controls on the Exchange Rate and the Remittance of Profits Abroad

According to the Peruvian Constitution, it is an essential principle to ensure a favorable legal framework for the development of private and foreign investment, as well as for the free possession and disposal of foreign currency.

Under this parameter, by means of

Legislative Decree (Decretos Legislativos) No 662 y 757:

Various benefits were established for private and foreign investment, including, but not limited to, the following guarantees:

- ▶ The possibility of freely making international remittances of profits or dividends abroad after paying the corresponding taxes.
- ▶ The right to use the most favorable exchange rate in the market for the type of exchange operation in question.

8. Temporary Tax on Net Assets (ITAN)

The ITAN is equivalent to 0.4% of the total value of assets in excess of PEN 1 million and is determined as of December 31 of the previous year. Companies in the pre-operating stage are excluded from this tax. The ITAN constitutes a credit against income tax, and its refund can be requested if it has not been fully used by the end of the fiscal year.

However, to avoid double taxation issues, subsidiaries and branches of foreign companies may choose to pay the ITAN with the income tax credit paid in Peru. In this way, taxpayers can claim the income tax paid in Peru as a foreign tax credit in their countries of origin, instead of a tax levied on assets.

9. Tax on Financial Transactions (ITF) and Payment Methods

A 0.005% tax is generally levied on deposits and withdrawals to and from accounts held with Peruvian financial institutions.

Any payment in excess of PEN 3,500 or USD 1,000 must be made using the so-called “payment methods,” which include bank deposits, drafts, transfer of funds, payment orders, debit or credit cards issued in Peru, and “non-negotiable checks.”

If said payment methods are not used, the cost or expense associated with said payment may not be recognized for income tax purposes. Additionally, the value-added tax paid for the purchase of goods or services involved may not be claimed as a tax credit.

10. Indirect Taxes

Value Added Tax (VAT)

The VAT is levied at a rate of 18% on the payment received for the following transactions:

- Sale of goods in the country
- Provision and/or use of services in the country
- Construction agreements implemented in the country
- First sale of real properties made by the construction company.
- Import of goods

The Value Added Tax (VAT) Act uses the debit/credit system, under which the VAT paid on sales is offset against the VAT paid on purchases. Any VAT that is not used as credit in a particular month may be applied in the following months until it is used up.

It should be noted that credit services are not levied with the VAT, which must be understood as applicable only to the income received by banking and financial companies, municipal savings and credit unions, municipal popular credit unions, development institutions for micro and small

businesses (EDPYME), savings and credit unions, and rural savings and credit unions, whether domiciled or not in Peru, as capital gains from the purchase and sale of bills of exchange, promissory notes, commercial invoices, and other commercial instruments, as well as for fees and interest accrued from the transactions carried out by these companies.

Fees, interest, and other income from direct and indirect credits granted by other entities that are supervised by the SBS engaged exclusively in operating in favor of micro and small businesses are also included as concepts not levied with the VAT.



11. Withholdings on Peruvian Source Income

When income is obtained by non-domiciled subjects, a withholding rate will be applied depending on the type of income, according to the following table:

Income	Rate
Interest paid abroad by banks as a result of the use in the country of proceeds from credit facilities granted abroad	4.99%
Interest paid to non-domiciled legal entities provided that certain requirements are met	4.99%
Interest paid to foreign-related companies	30.00%
Dividends and other forms of profit-sharing, as well as the remittance of branch profits, when they are paid to individuals or non-domiciled subjects	5%
Capital gains from the disposal of securities within the Lima Stock Exchange (BVL) which must meet the requirements for exemption	0%
Capital gains from the disposal of marketable securities (shares, debentures, or securities issued by companies incorporated in Peru) within the BVL	5.00%
Capital gains from the disposal of marketable securities (shares, debentures, or securities issued by companies incorporated in Peru) outside the BVL	30.00%
Technical support services	15.00%
Digital services	30%
Royalties	30.00%
Services rendered in Peru	30.00%

12. International Treaties

Currently, Peru has entered into double taxation avoidance agreements (DTAA) with the following countries:

- Canada
- Chile
- Brazil
- Mexico
- Switzerland
- South Korea
- Portugal
- Japan

These DTAA's are based on the treatment of income and capital in the Model Agreement of the Organization for Economic Cooperation and Development (OECD).

Furthermore, Decision 578 of the Andean Community has been signed, which is applicable to the following jurisdictions:

- Colombia
- Ecuador
- Bolivia



b. Tax Treatment of FinTech Companies

The Peruvian tax regulatory framework does not contemplate any specific tax treatment applicable to the FinTech industry; thus, said treatment will depend on the tax implications arising from the legal relationship among participants.

1. Factoring

The transfer of accounts receivable made through factoring or discount transactions whereby the company acquires credit instruments from an individual, company, or entity for a good and valuable consideration have, among others, the following effects in connection with income tax:

In “non-recourse” factoring, transfer of accounts receivable in which the acquirer assumes the debtor’s credit risk:

- ▶ **For the factor or acquirer of accounts receivable (FinTech company):** The difference between the face value of the accounts receivable and the transfer value constitutes income from services and is levied with income tax.
- ▶ **For the customer or transferor of accounts receivable:** The transfer of accounts receivable generates a deductible expense, determined by the difference between the face value of the accounts receivable and the transfer value.

In “recourse” factoring, this means the transfer of accounts receivable in which the acquirer does not assume the debtor’s credit risk:

- ▶ **For the acquirer of accounts receivable (FinTech company):** The difference between the face value of the accounts receivable and the transfer value will constitute interest arising from the financing service.
- ▶ **For the customer or transferor of accounts receivable:** The difference between the face value of the accounts receivable and the transfer value will constitute a deductible expense on account of interest arising from the financing service.

The regulation also establishes that, for income tax purposes,

the transfer of accounts receivable must be duly supported by the corresponding agreement.

Current tax regulations do not establish a special tax regime applicable to FinTech companies regarding factoring transactions with or without recourse. Thus, factoring companies not included in the scope of Law 26702, as is the case with FinTech companies, must apply the same tax treatment mentioned above.

Value Added Tax (VAT)

In case the factor acquires accounts receivable from the customer assuming the debtor’s credit risk (i.e., factoring “without recourse”) said transfer will not constitute a sale of goods or provision of services, provided that the factor (FinTech company) is authorized to act as such.

On the other hand, if the debtor’s credit risk is not transferred upon carrying out a transfer of accounts receivable (i.e., factoring “with recourse”), it is considered that the acquirer (FinTech company) provides a service levied with the VAT. In this case, the provision of credit services will take place from the moment in which the account receivable is returned to the transferor or the transferor buys it back from the acquirer. Thus, the taxable base is the difference between the transfer value of the accounts receivable and their face value.

Likewise, in any case, the interests accrued from the transfer of accounts receivable that were not invoiced and previously included in said transfer are considered as income received by the factor and are levied with the VAT.

In the case of additional services, the taxable base will consist of the total consideration received for said services, except when the factor or acquirer cannot specifically determine the part corresponding to the consideration for the provision thereof, in which case the taxable base will be the total amount of the difference between the transfer value of the accounts receivable and its face value.

It should be noted that the company transferring the accounts receivable must issue a document stating the total amount of the accounts receivable transferred on the date that said transfer occurs.

2. Financing via Crowdfunding

Below we will provide information on the tax treatment of crowdfunding transactions for each of the participants involved in this type of transaction.

Income Tax

► Investors:

The return received by investors will be treated as interest, which will be levied with income tax under the premise that it constitutes income from a Peruvian source, in accordance with the status of said investors.

► Domiciled Individuals:

If investors are domiciled individuals, interest will be taxed at a rate of 5%.

Note that it will always be important to verify in each specific case how the clauses are structured to avoid claiming a regularity presumption for classifying taxpayers as third-bracket income generators within the framework of the tax regulations. It is important to indicate that, although it is not the purpose of this type of financing mechanism, it has not yet been expressly determined when the generation of income of an individual can be made on a regular basis.

► Non-domiciled Individuals:

If investors are non-domiciled individuals, the Income Tax withholding rate will be 4.99%, provided that certain requirements are met. Otherwise, the rate will be 30%.

► Legal Entities:

For domiciled legal entities, interest will be taxed with the corporate income tax rate equivalent to 29.5%, unless the company is subject to a special regime.

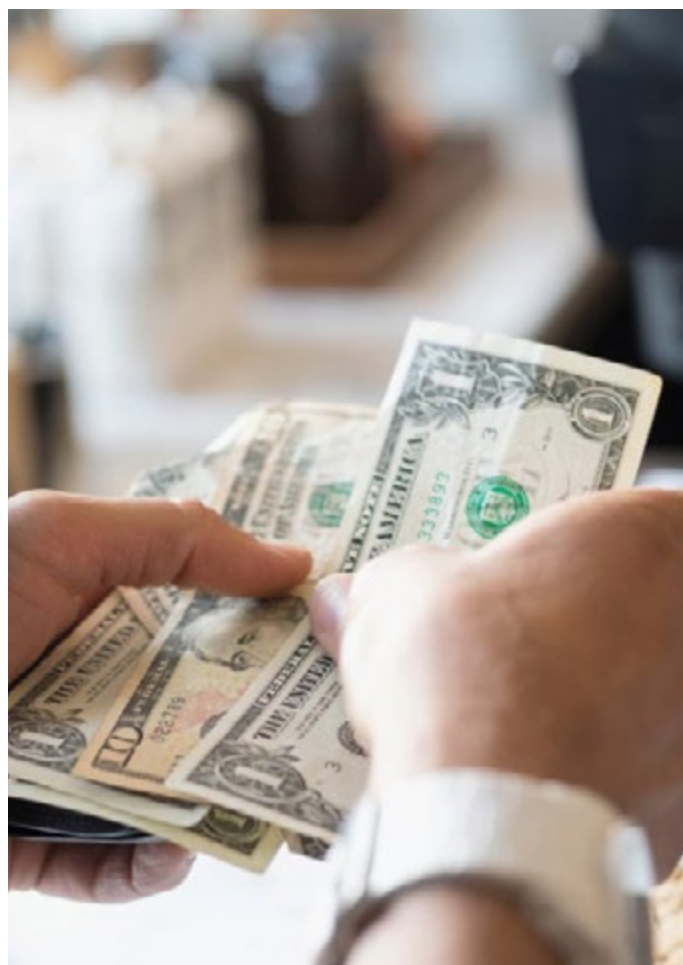
Non-domiciled Legal Entities: In the case of non-domiciled legal entities, the withholding rate will be 4.99%, provided that certain requirements are met. Otherwise, the rate will be 30%.

► Platform Administration Companies:

In case the platform is managed by an administration company, since it is a legal entity domiciled in the country, the fees charged will constitute income for the purpose of advance payments and will be levied with income tax at the corporate rate of 29.5%.

► Recipient:

The owner of the project domiciled in Peru (the owner of the project subject-matter of financing)—as a legal entity or individual with a business—may deduct the following concepts as expenses: (i) the interest paid to investors; and (ii) the fees paid for the use of the platforms, respecting the corresponding limits.



Value Added Tax (VAT)**► Investors:**

Investors or beneficiaries of the interest are considered to be VAT taxpayers, who must issue a payment voucher, which will allow the project owner (legal entity) to deduct interest as an expense and use the transferred VAT as a tax credit.

If investors are individuals without a business, the interest they receive will not be levied with the VAT, since said income does not qualify as a service itself for the purposes of the VAT regulations.

► Platform Administration Company:

The fees charged by the administration company are levied with the VAT. Indeed, the owner of the platform is a legal entity or an entity that carries out business activities, so the fees charged, as well as the additional services rendered, will be levied with the VAT.

► Recipient:

If the project owner is a VAT taxpayer, the project owner may use the tax transferred thereto by investors and the platform owner as a tax credit, for which the project owner must request the investors to issue the corresponding payment voucher.

3. Electronic Wallets and Money

a. Income Tax (IR):

The consideration—usually in the form of fees—charged by issuing companies will constitute taxable income with a rate of 29.5% on net income, which will be determined by deducting the expenses necessary to produce it and maintain its source from the gross income, as long as its deduction is not expressly prohibited by the IR Act.

b. Value Added Tax (VAT):

The Electronic Money Act provides that electronic money issuance transactions carried out by Electronic Money Issuing Companies (EEDC) are exempt from VAT for an initial period of

three (3) years, a period that was extended until December 31, 2021 by Legislative Decree No. 1519.

4. Cryptocurrencies

Similar to that indicated in the previous case, in the specific case of transactions with cryptocurrencies, the nature of each transaction carried out must be taken into consideration to determine the applicable tax treatment.

a. Production or Mining of Cryptocurrencies in Peru:

In case a domiciled company carries out mining activities in Peruvian territory, the value assigned to the cryptocurrencies will be subject to third-bracket income tax, and the tax to be paid is to be calculated by applying a rate of 29.5% on the net income, which is determined by deducting the expenses associated with the mining process from the gross income.

b. Transfer of Cryptocurrencies as a Payment Method or Sale

Exchange of cryptocurrencies for goods or services made by a third-bracket income taxpayer will be levied with the IR. The tax to be paid will be calculated by applying a rate of 29.5% on the difference between the transfer value and its book value.

In the absence of specific regulation, there is controversy whether cryptocurrencies should be treated as personal property or as a money equivalent. In both situations, it would not generate an impact for individuals since they are only taxed on the sale of securities and real estate in Peru.

2

Anti-Money Laundering and Countering Financing of Terrorism

a. What are the compliance risks potentially applicable to FinTech companies?

Due to the local and international situation, management of compliance risks related to irregular activities (such as corruption, money laundering, and terrorist financing) has become a primary issue on the agenda of the Boards of Directors and Senior Management of companies nationwide.

In this context, understanding that fighting these irregular activities requires the participation of the private sector, the State has been enacting laws and regulations that seek to promote the prevention of such crimes by companies.

In addition, to prevent the serious reputational effects that the commission of these crimes could have on them, companies have been strengthening their compliance programs in order to avoid being involved in this type of activity.

There are currently a significant number of sectors that are required to implement money laundering and terrorist

financing prevention systems and report any such acts when detected, which include the companies of the financial system.

Not all FinTech verticals are required to comply with the money laundering and terrorist financing prevention regulations; however, when providing financial services and considering that their services could be susceptible to these crimes, it is recommended that they evaluate the possibility of implementing a prevention system that has adequate controls to prevent them from being used to launder money or finance terrorist groups.

Furthermore, considering that corruption is one of the main problems in the country and that, according to Transparency International, Peru has one of the highest corruption perception indices in Latin America, it is also advisable to make important efforts to prevent this type of crime.



Below, we will list the main regulations published regarding the prevention of corruption, money laundering, and terrorist financing, which aim to guide companies in developing a culture of compliance, integrity, and good corporate governance:

Regulations Related to the Prevention of Corruption:

► **Law 30424:**

Law that regulates the administrative liability of legal entities for the crime of transnational active bribery.

► **Legislative Decree 1352:**

Amendment to Law 30424 broadens the scope of crimes, including general active bribery, specific active bribery, money laundering, and terrorist financing.

► **Law 30835:**

Law that amends the name and Sections 1, 9, and 10 of Law 30424, broadening the scope of crimes including simple collusion, aggravated collusion, and influence peddling.

► **Executive Decree (Decreto Supremo) 002-2019-JUS:**

The decree that establishes the Regulations of Law 30424.

Legal Provisions on the Anti-Money Laundering and Countering Financing of Terrorism.

► **Resolution 2660-2015 issued by the SBS:**

Resolution whereby the regulations on the management of money laundering and terrorist financing risks are approved for companies supervised by the SBS.

b. How can we prevent compliance risks?

Prevention model

Law 30424 and its Regulations:

These legal provisions establish that legal entities are liable for crimes of corruption (transnational active bribery, general active bribery, specific active bribery, simple collusion, aggravated collusion, and influence peddling) money laundering, and terrorist financing when they have been committed by the company's employees or by third parties acting as representatives, or when the company benefits from it (directly or indirectly). Moreover, the law establishes sanctions for the legal entities that are considered liable for the commission of said crimes, including fines, withdrawal of licenses and concessions, impediments to enter into agreements with the State, etc.

It also establishes that companies could be released from liability, in the event any of these irregularities materialize, if they have implemented mechanisms to prevent their occurrence. These mechanisms are related to companies having a prevention model that includes the following components.

Minimum elements:

- ▶ A person responsible for prevention matter.
- ▶ Identification, assessment, and mitigation of risks
- ▶ Implementation of whistleblowing procedures
- ▶ Dissemination and periodic training
- ▶ Continuous evaluation and monitoring
- ▶ Prevention policy and code of conduct

Supplementary Elements:

- ▶ Specific policies for risk areas
- ▶ Record of activities and controls
- ▶ Integration in business processes
- ▶ Appointment of an internal auditor
- ▶ Procedures for interruption or remediation
- ▶ Continuous improvement of the prevention model

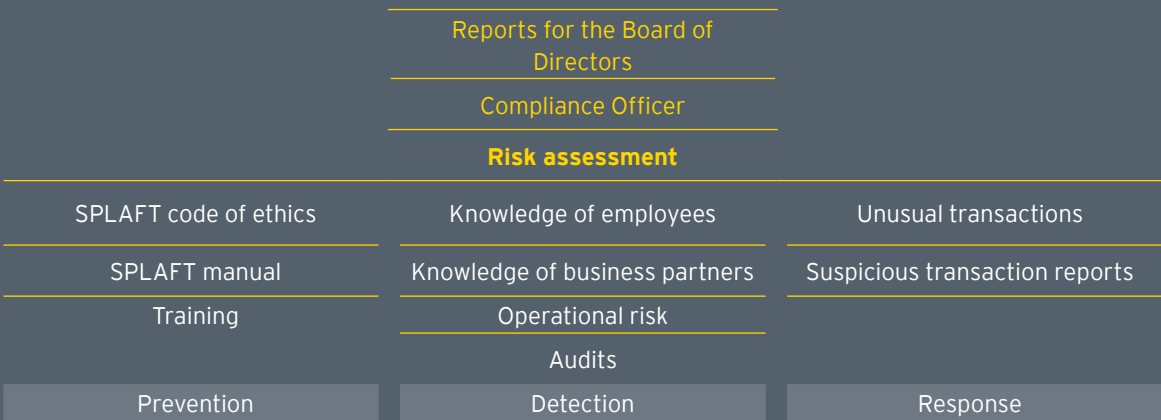
SPLAFT¹⁴⁷

Resolution 2660-2015 issued by the SBS: The “Regulations on the Risk Management of Money Laundering and Terrorist Financing” set out the guidelines and activities that the companies supervised by the SBS (known as Liable Parties) must implement to prevent them from being used for money laundering and terrorist financing.

Due to the nature of their activities, even when FinTech companies are not considered liable parties, they could assess the implementation of a Money Laundering and Terrorist Financing Prevention System (SPLAFT¹⁴⁸) to protect their reputation and prevent the breach of these regulations.

Furthermore, the regulations lay out different requirements for the implementation of the SPLAFT¹⁴⁹, such as the establishment of policies and procedures for managing money laundering and terrorist financing risks and the implementation of procedures and controls related to the timely detection and reporting of suspicious transactions in order to avoid being used for purposes related to money laundering and terrorist financing.

| Components of the SPLAFT¹⁵⁰



¹⁴⁷ Please note that the acronym is in Spanish.

¹⁴⁸ Please note that the acronym is in Spanish.

¹⁴⁹ Please note that the acronym is in Spanish.

¹⁵⁰ Please note that the acronym is in Spanish.

3

Personal Data Protection Regulations

Personal data protection regulations are included in various legal provisions, the most relevant being the following:

1. Law 29733, Personal Data Protection Act (July 2011).
2. Regulations of the Personal Data Protection Act, as approved by Executive Decree 003-2013-JUS (May 2013).
3. Directive on Information Security Managed by Personal Data Banks, as approved by Director's Resolution 019-2013-JUS/DGPDP (October 2013).
4. Guide on the Duty to Report, as approved by Director's Resolution 080-2019-JUS/DGTAIPD (November 2019).
5. Directive on the Treatment of Personal Data Through Video Surveillance Systems, as approved by Ministerial Resolution 02-2020-JUS/DGTAIPD (January 2020).
6. Metodología para el Cálculo de Multas en Materia de Protección de Datos Personales, aprobada por Resolución Ministerial 326-2020-JUS (diciembre, 2020)

In Peru, the National Authority for Personal Data Protection (ANPDP¹⁵¹) after its spanish acronym which is attached to the Ministry of Justice (MINJUS¹⁵²) is the competent public body in personal data protection matters, being in charge of administrative, guiding, regulatory, resolutive, supervisory and sanctioning functions.

The existence of this regulatory framework is of utmost importance considering the increasingly prominent role of information in the economy. Personal data can be very valuable to optimize the operation of organizations and their business strategies. However, it is also important to ensure that data is collected and processed appropriately.

a. Key Concepts Regarding Personal Data Protection

For a better understanding and application of the regulatory framework on personal data protection, it is imperative to know the scope of the following concepts:

1. **Personal Data:** All information about individuals that identifies them or makes them identifiable through means that can be reasonably used. There is special treatment for sensitive data (e.g., about health or income).
2. **Personal Data Consent (free):** It must be granted voluntarily. Consent for ancillary purposes (e.g., advertising and commercial prospecting) must be obtained autonomously and must not be a condition for the provision of the services offered.
3. **Personal Data Bank:** Organized set that collects personal data. It can be automated (computerized), non-automated (physical), or mixed. It must be registered with the National Authority for Personal Data Protection.
4. **Cross-border Flow:** International transfer of personal data to a recipient located in a country other than the country of origin of the personal data. It must be communicated to the National Authority for Personal Data Protection.
5. **ARCO Rights:** Rights of access, rectification, cancellation, and opposition recognized to personal data owners and regulated in the Personal Data Protection Act and its Regulations.

¹⁵¹ Please note that the acronym is in Spanish.

¹⁵² Please note that the acronym is in Spanish.

b. Legal Obligations in Personal Data Protection Matters

Below, we share five (5) legal obligations provided for in the regulations, the compliance of which will prevent companies from incurring any legal or reputational risk:

1. Having a “simple” privacy policy in a clear format with understandable and simple sentences will be a good sign of transparency to users.
2. Obtaining consent and authorization in a timely manner will give companies legitimacy to carry out the proper processing of personal data.
3. Implementing a procedure for the exercise of ARCO rights, which must be clear and detail the information to be submitted, the deadlines, and any other documentation.
4. Keeping the information for a “prudent” time, which means that the data may be kept as long as it is useful and fulfills the purpose for which it was collected.
5. Registering personal data banks with the National Authority for Personal Data Protection through virtual forms published on the institutional website to mitigate the initiation of inspection and sanctioning procedures against them.

c. Main Challenges for Companies

Companies face challenges regarding personal data protection that they must address to avoid incurring legal and reputational risks.

The main challenges include the following:

1. Carrying out a correct treatment of the personal data handled by the company.
2. Applying legal, technical, and organizational security measures in order to protect personal data
3. Training and continually evaluating staff concerning compliance with the regulations.
4. Designing and implementing regulatory compliance programs that add value to the business.

d. Procedure to Register a Personal Data Bank

Companies, in their capacity as owners of personal data banks, must register them with the National Authority for Personal Data Protection using the virtual forms published on their institutional page and providing the following information:

1. Name and location of the personal data bank, its purposes and intended uses.
2. Information on the identity of the data bank's owner and, if applicable, that of the person in charge.
3. Types of personal data subject to treatment at said bank.
4. Personal data collection procedures and processing system.
5. Technical description of the security measures.
6. Recipients of personal data transfers (local and international).

In the event that companies engage in cross-border flow (international personal data transfer) they must notify the Authority by completing the information requested in the same virtual registration form for registering the personal data bank.

For this procedure, the Authority has enabled a virtual documentary procedures portal available on the MINJUS website:

[Click here](#)

and a physical documentary procedures office (Calle Scipión Llona 350, Miraflores) where the following must be sent:

1. Personal data bank registration form, duly completed, addressed to the Personal Data Protection Bureau.
2. Proof of payment or certificate of electronic transfer of the corresponding fee.
3. Copy of the document that certifies the appointment of the company's representative.

[Click here](#)

What has occurred in Peru during 2020 regarding personal data protection?

- ▶ A total of 305 public and private entities audited.
- ▶ A total of 277 final audit reports.
- ▶ More than 100 sanctioning procedures initiated ex officio.
- ▶ More than 100 corrective measures ordered.
- ▶ A total of 142 complaints filed (ex parte).
- ▶ More than 100 resolutions issued in the first and second administrative instance.
- ▶ A total of 829 Tax Units (more than PEN 3.5 million) in fines.
- ▶ Fifteen (15) advisory opinions (e.g., on personal health data collected by employers during the pandemic and on personal data in the telecommunications sector for tax audits).

In 2021:

Bill 7870/2020-PE, which creates the National Authority for Transparency, Access to Public Information and Personal Data Protection

It proposes an amendment to the Personal Data Protection Act, regulating the following concepts, rights, and obligations:

- ▶ Inclusion of a personal data officer and a representative (Section 18).
- ▶ Obligation to report to the authority and notify the personal data owner in case of security incidents (Section 28.9).
- ▶ Obligation to appoint a personal data officer and a representative (Sections 28.10 and 28.11).
- ▶ Incorporation of the right to data portability (Section 23-A).

Fines Imposed by the ANPDP

- ▶ PEN 64,500: A telecommunications company was fined for breaching the duty of confidentiality.
- ▶ PEN 25,800: A health establishment failed to register a personal data bank with the ANPDP.
- ▶ PEN 21,930: A technology company published images on its website without the consent of the owners.



4

Antitrust Mergers & Acquisitions

Antitrust laws in Peru comprise a double scope of control: (i) control of structures; and (ii) control of behavior. This means that the rules established by the free competition regulatory framework regulate both corporate integration processes (e.g., M&A operations) and the practices carried out by all companies in the market.

In particular, the free competition rules include mainly the following:

1. **Law 31112:** Act Establishing Merger Control Procedures Operations.
2. **Executive Decree 039-2021-PCM:** Executive Decree that approves the Regulations of Law 31112–Act Establishing prior Control of Business Concentration Operations.
3. **Resolution 022-2021/CLC-INDECOPI-OS/GG:** Guidelines for the Calculation of Notification Thresholds.
4. **Legislative Decree 1034:** Act for the Repression of Anticompetitive Behaviors.
5. **Resolution 059-2017/CLC-INDECOPI:** Clemency Program Guide.
6. **Resolution 143-2020-CD/OSIPTEL:** Telecommunications Clemency Program Guide.
7. **Resolution 009-2020/CLC-INDECOPI:** Inspection Visit Guidelines.
8. **Resolution 006-2020/CLC-INDECOPI:** Free Competition Compliance Program Guide.

In Peru, the National Institute for the Defense of Free Competition and the Protection of Intellectual Property (INDECOPI) is a public agency in charge of –among other tasks related to free and fair competition and intellectual property– authorizing business concentration operations subject to the prior notification regime, as well as of supervising and penalizing anti-competitive conduct.

a. Key Concepts Related to the Promotion and Defense of Free Competition

To facilitate understanding of the legal concepts and institutions established in free competition regulations, we provide a brief description of the most relevant ones:

Merger Control Regimes:

1. **Concentration Operation:** Any act or operation that involves a transfer or change in control of a company or part of it. The obligation to notify is only applicable to those operations that exceed certain thresholds.
2. **Control:** Possibility of exercising decisive and continuous influence over an economic agent through (i) ownership rights or use of all or part of the assets of a company, or (ii) rights or agreements that allow to decisively and continuously influence the decisions of a company's corporate bodies.
3. **Threshold:** The quantifiable, selective, and objective parameter expressed in tax units (UIT), based on which a business concentration operation must be subject to the prior control procedure.
4. **Geographic Link:** The link that makes it possible to identify whether a business concentration operation produces effects in the national territory, in which the competent bodies have jurisdiction to assess any such operation.
5. **Commitments or Conditions:** Conducts or behaviors intended to avoid or mitigate potential effects arising from

the business concentration operation. They will be called “commitments” when they are proposed by the agents and “conditions” when they are imposed by the Authority.

Anticompetitive Conduct Control Regime:

1. **Relevant Market:** This market is made up of the product market and the geographic market. The product market is, in general, the good or service that is the subject matter of the behavior under investigation, including its substitutes. The geographic market corresponds to the set of geographic areas where the alternative sources of supply of the relevant product are located.
2. **Dominant Position:** It is understood that an economic agent has a dominant position in a relevant market when it has the possibility of substantially restricting, affecting, or distorting the conditions of supply or demand in said market, without its competitors, suppliers, or clients being able to counteract that possibility at that time or in the immediate future.
3. **Abuse of Dominant Position:** Abuse is considered to exist when an economic agent having a dominant position in the relevant market uses this position to unduly restrict competition, obtaining benefits and harming direct or indirect, actual or potential competitors, which would not have been possible if said agent did not have said position.
4. **Horizontal Collusive Practices:** Horizontal collusive practices are understood to be those agreements, decisions, recommendations, or concerted practices carried out by competitive economic agents with the purpose or effect of restricting, preventing, or distorting free competition.
5. **Vertical Collusive Practices:** Vertical collusive practices are understood to be those agreements, decisions, recommendations, or concerted practices carried out by economic agents that operate at different levels of the production, distribution, or commercialization chain, which have the purpose or effect of restricting, preventing or distorting free competition
6. **Clemency Program:** It refers to the possibility of requesting an exemption from the penalty that would be applied for the performance of anticompetitive conduct. This implies that before the initiation of an administrative sanctioning procedure, any person may request the

authority to be exempted from the sanction in exchange for providing evidence that helps detect and prove the existence of a collusive practice, as well as punish those responsible for it.

b. Mechanisms to Prevent Anticompetitive Conduct

As part of the efforts of the competent authority to raise awareness in companies about the harmful effects of anticompetitive conduct in the market, it issued the Free Competition Compliance Program Guide, as approved by Resolution 006-2020/CLC-INDECOPI.

Free competition compliance programs are self-regulation tools that aim to create an organizational culture of compliance with the free competition rules to avoid breaches in this matter. In this context, the purpose of the Free Competition Compliance Program Guide is to offer greater incentives for companies, on their own initiative, to adopt policies to comply with free competition regulations and for these to be disseminated and implemented by all of their employees.

Compliance programs have, among others, the following benefits:

1. **Prevention of Breaches and Their Costs:** An effective program will prevent companies from assuming the costs of fines, corrective measures, and liability (compensation for damages) and even the costs of having to defend themselves in an administrative procedure or judicial proceeding derived from breaches of free competition regulations.
2. **Damage Detection and Control:** The implementation of the Compliance Program does not completely rule out the probability that companies will incur breaches. If there is any breach of the free competition regulations, it may be detected in a timely manner thanks to the internal protocols implemented for that purpose.

3. Reputational Improvement: A Compliance Program will allow companies to demonstrate the seriousness and responsibility of their performance in the market, especially if the fact that the breach of free competition regulations has detrimental effects on consumers is considered.



**Free Competition
Compliance
Program Guide**

Essential Components



Real Compliance
Commitment (tone
at the top)



Risk Identification
and Management



Free Competition
Manual



Risk Identification
and Management



Training



Incentives for
Employees



Program Update and
Monitoring



Program
Audit



Disciplinary
Measures



Procedure for Inquiries
and Complaints



Compliance Officer
or Committee

5

Information Security and Cybersecurity

As technology has become a fundamental part of companies worldwide, they are more likely to be victims of a cyberattack. During the COVID-19 pandemic, there was a significant increase in cyberattacks. These are more frequent and occur at a faster rate. Consequently, cybersecurity is a critical aspect of business risk management.

In Peru, the SBS is the agency responsible for regulating and supervising the Financial, Insurance, and Private Pension Systems, as well as for preventing and detecting money laundering and terrorist financing.

Given the growing interconnectivity and greater adoption of digital channels for the provision of services and virtualization of certain products of the financial, insurance, and private pension systems, supervised companies need to strengthen their cybersecurity capabilities, including their authentication processes.

In this regard, the SBS has issued the “Regulations for Information Security and Cybersecurity Management,” which was approved by Resolution 504-2021 in February of this year. Said Regulations set out the necessary guidelines that supervised entities must comply with in proportion to their size.

The SBS Regulations describe the minimum controls that supervised companies must implement. These controls relate

to security in human resources; physical and logical access control; security in operations; security in communications; security in the acquisition, development, and maintenance of systems; cybersecurity incident management; physical and environmental security; cryptography and information asset management. Additionally, companies must have a strategic plan for the Information Security and Cybersecurity Management System (SGSI-C¹⁵³) as well as a cybersecurity program. The SBS also requires supervised companies to report significant cybersecurity incidents.

For FinTech companies and financial institutions, perhaps one of the most important attributes they can have is the trust of their customers, which is based on the guarantee that their information and the transactions associated with it are secure. Trust fosters growth with more customers sharing the experience and perception that the service provided is helpful and safe.

It is important to establish a common understanding of what information security is and what cybersecurity is. On one hand, information security seeks to protect the confidentiality (that it is available to authorized persons), integrity (that it is not modified without control), and availability (that it can be used when needed) of the information. To this end, physical (civil infrastructure), logical (information systems), and organizational (processes, procedures, and people) resources are used.

On the other hand, cybersecurity focuses on the control of the technological components that make up the digital environment, the operational dynamics that occur in that environment (records, queries, transactions, etc.) as well as the access and identity of the people who execute them (employees, customers or third parties) so that the business model operates securely.

The key success factor for information security and cybersecurity is to institutionalize it in the company. In other words, information security must be everyone's goal, it must be regarded as an enabler of customer trust, and should be taken into account throughout the life cycle of products and services. For this purpose, it will be necessary to create

behaviors that become habits over time and these, in turn, will be the building blocks on which the company's information security and cybersecurity culture will be based.

Information Security in FinTech Companies

The various business models that FinTech companies can adopt are just an indicator of all the possibilities they offer and the advantages that motivate their use by their customers. Cybersecurity is a part of information security since the Internet is the medium where the activities of a series of business models are carried out, which are precisely business models that encourage the use of apps on mobile devices for said purpose.

Consequently, we will focus our attention on what we will call the "baseline" of information security and cybersecurity, which is understood as the minimum acceptable information security and cybersecurity control environment that must be considered for a FinTech company and must be implemented completely and operate in a sustained manner over time.

It is important to bear in mind that the size of the FinTech company does not necessarily reduce the number of controls to be applied, although it may determine some variation in the scope of what each of them implies. This baseline comprises fundamental controls. Other controls can be applied in addition to them, which will be specifically identified based on the information security and cybersecurity risk analysis of the FinTech company's business model.

Likewise, a FinTech company is required to have people who can establish and maintain information security and cybersecurity in the company. Said people must have the knowledge and experience necessary for the prevention, identification, response, and recovery of the operation in the event of an incident. In the organization, a person is required to lead this front and can be assisted by another person in the organization or hire the services of a specialized company.

¹⁵³ Please note that the acronym is in Spanish.

Below are the definitions of some terms that will be mentioned in the controls that make up the baseline:

- ▶ **Information Asset:** Information or medium in which it is stored, which is managed in accordance with business needs and legal requirements, so that it can be understood, shared, and used. It is valuable to the company and has a life cycle.
- ▶ **Company Assets:** End-user devices, including laptops and cellphones; network devices; non-computing / Internet of Things (IoT) devices and servers; as well as the company's systems and applications.
- ▶ **Vulnerability:** Weakness that exposes assets to threats that can cause incidents and have a negative impact on the company.
- ▶ **Malware:** Malicious code designed to damage systems.

The baseline is made up of eighteen (18) controls¹⁵⁴ that we describe below:

Control 1:

Inventory and Control of Computing and Communication Assets

Actively manage (keep inventories, track and correct) all company assets connected to physical and virtual infrastructures (cloud environments) to accurately understand all of the assets that need to be monitored and protected within the company.

Control 2:

Inventory and Control of Software Assets

Actively manage (keep inventories, track and correct) all software (operating systems and apps) on the network so that only authorized software is installed and can be run.

Control 3:

Data Protections

Develop processes and technical controls to securely identify, classify, manage, retain and delete data.

Control 4:

Secure Configuration of Equipment and Programs

Establish and maintain a secure configuration of business assets, including servers, mobile devices, and laptops; network devices; operating systems, and apps.

Control 5:

User Account Management

Keep the inventory of user accounts updated, including administrator accounts, as well as service accounts, and carry out periodic monitoring of access management to enable user accounts and their access privileges or disable inactive accounts for a certain period.

Control 6:

Access Control Management

Use processes and tools to create, assign, manage, and revoke access credentials and privileges for user accounts, administrators, and service accounts for company assets and software.

Control 7:

Continuous Vulnerability Managements

Develop a plan to continually assess and track vulnerabilities in all business assets within the corporate infrastructure to correct and minimize the window of opportunity for

¹⁵⁴ Reference: CIS V8.

attackers. Likewise, public and private industry sources should be monitored to obtain information on new threats and vulnerabilities.

Control 8:

Audit Log Management

Collect, warn, review, and maintain audit logs of events that could help detect, understand, or recover from attacks.

Control 9:

E-mail and Web Browser Protection

Improve prevention and detection of e-mail threats and the web environment.

Control 10:

Malware Protection

Prevent or control the installation, propagation, and execution of malicious apps, codes, or scripts on computer equipment.

Control 11:

Data Recovery

Establish and maintain data recovery practices sufficient to restore information assets within the scope of established protocols.

Control 12:

Data Network Infrastructure Management

Actively establish, deploy and manage (monitor, report, fix) network devices to prevent attackers from exploiting network services and vulnerable access points.



Control 13:**Monitoring and Defense of Data Networks**

Use processes and tools to establish and maintain comprehensive network monitoring and defense against security threats in the company's network infrastructure and user base.

Control 14:**Cybersecurity Awareness and Skill Development**

Establish and maintain an awareness program on information security and cybersecurity to influence the behavior of employees so that they are aware of and properly trained in mechanisms to reduce the company's cybersecurity risks.

Control 15:**Service Provider Management**

Develop a process to evaluate service providers that maintain confidential data or are responsible for critical IT components (processes or platforms) to ensure that these providers are adequately protecting said platforms and data.

Control 16:**App Security**

Manage the security life cycle of software developed, hosted, or acquired to prevent, detect and correct security weaknesses before they can affect the business.

Control 17:**Incident Response Management**

Establish a program to develop and maintain the necessary incident response capabilities (e.g., policies, plans, procedures, defined roles, training, and communications) to quickly prepare for, detect, and respond to attacks.

Control 18:**Penetration Tests**

Test the effectiveness and resistance of company assets by identifying and exploiting weaknesses in controls (people, processes, and technology) and simulating the objectives and actions of an attacker.

Conclusion:

These 18 controls that make up the security baseline provide specific guidance and a clear path for FinTech companies to manage information security and cybersecurity, helping to prevent and protect themselves from cyberattacks.



6

Regulation of Intellectual Property

In intellectual property, the World Intellectual Property Organization (WIPO) establishes a division into two (2) broad categories: copyright and industrial property.

The first protects works created out of human ingenuity, such as literary, audiovisual, and artistic works, software, artistic interpretations, among others.

On the other hand, industrial property grants exclusive rights over an invention, a new technology, or distinctive signs, such as trademarks, invention patents, or industrial designs.

The regulation of intellectual property in Peru is covered in various local and international regulatory provisions, the most relevant being the following:

1. The Berne Convention for the Protection of Literary and Artistic Works to which Peru has been a party since 1988.
2. The Paris Convention for the Protection of Industrial Property, to which Peru is a signatory.
3. Decision 486 issued by the Commission of the Andean Community, which establishes the common industrial property regime.

4. Legislative Decree 822—the Copyright Act.
5. Legislative Decree 1075, which approves supplementary provisions to Decision 486 issued by the Commission of the Andean Community, establishes the common industrial property regime.

In Peru, INDECOPI is the public agency in charge of promoting and regulating the exercise of all of these rights.

a. Copyright

In Peru, certain works are specifically protected by copyright, including the following:

- Literary works such as novels, poems, stage performances, reference works, newspaper articles.
- Computer programs and databases.
- Films, musical compositions, and choreographies.
- Artistic works such as paintings, drawings, photographs, and sculptures.
- Architecture.
- Advertisements, maps, and technical drawings.

Copyright comprises two (2) types of privileges established in the legislation:

- Proprietary rights, which allow owners to obtain financial compensation for the use of their works by third parties.
- Moral rights, which protect the non-proprietary interests of the author.

In Peru, copyright regulations provide that owners have the proprietary right to authorize or prevent certain uses of their work or to receive economic compensation for the use thereof (for example, through collective management). Holders of the proprietary rights over a piece of work may prohibit or authorize:

- The use of their work without having a license provided by the owner, as would be the case with software or computer programs.
- Reproduction of their work in various ways, such as a printed publication or sound recording.
- Public performance, for example, in a dramatic or musical work.
- The recording of the work, for example, in the form of compact discs or DVDs.
- The broadcasting of the work by radio, cable, or satellite.
- The translation of the work into other languages.

b. Industrial Property

In Peru, holders of industrial property rights are not required to register as such with INDECOPI. However, this registration is essential to exclusively exercise these ownership rights.

Indeed, registration grants its holders certain advantages, such as:

1. Preventing others from taking advantage of the prestige or reputation of a creation through imitations or forgeries.
2. Allowing for bringing civil and even criminal actions to protect the right against third parties.
3. Empowering INDECOPI to impose sanctions, final and conclusive measures, and coercive fines on those who misuse registered industrial property.
4. Granting the possibility of selling or assigning in use the right in exchange for a consideration.

Industrial Property Elements Subject to Registration

Under Peruvian legislation, distinctive signs, inventions, and new technologies are subject to registration. Next, we provide a detailed description of the main industrial property elements.

c. Distinctive Signs

1. Product and Service Marks

Trademarks are a graphic representation that indicates that certain goods and services have been produced or provided by a certain market agent. This sign allows consumers to distinguish between different competitors since it represents a market agent, the quality of the product or service, and its commercial value.

It is thus essential to keep the registered trademark in use since, after three years of inactivity, any interested person could request its deregistration and proceed to register it in his or her name.

2. Commercial Slogan

It is the word or phrase used in conjunction with a trademark. Thus, for its registration, the trademark to which the slogan will be associated must be indicated, and its validity will be subject to that of the said distinctive sign. Likewise, the transfer thereof also implies the transfer of the trademark.

3. Trade Name

It is the sign used to identify a company, economic activity, or establishment. Unlike other industrial property classes, the exclusive right over the trade name is acquired automatically upon its first use in commercial activities. In that regard, its registration is merely declarative. However, it is effective proof of ownership.

d. Effective Term of Registration

Ten (10) years from the date the registration was obtained and said term may be extended for the same period.

e. Elements that are not Subject to Registration

It is important to note that, despite the importance of registering industrial property, not every human creation can be registered. In this regard, for example, in Peru, know-how is not an element subject to registration. This term refers to the set of business knowledge, both technical, administrative, and commercial, which is acquired through experience and skill building at the time of carrying out an activity or business process. Thus, the “know-how” to manage a company constitutes an economic value for it, and cannot be registered. This does not mean that this expertise or a particular way of making a product or rendering a certain service is not subject to protection, but rather that Peruvian legislation has provided for a different area to that of intellectual property for its protection; in this case, the unfair competition regulation is the one that advocates its protection.

f. Right of Priority

The territorial space where industrial property rights can be exclusively exercised corresponds to the country in which they have been registered. That is, market agents must register their right in each of the countries in which they wish to make use thereof since their registration will only be valid in the country in which it was granted.

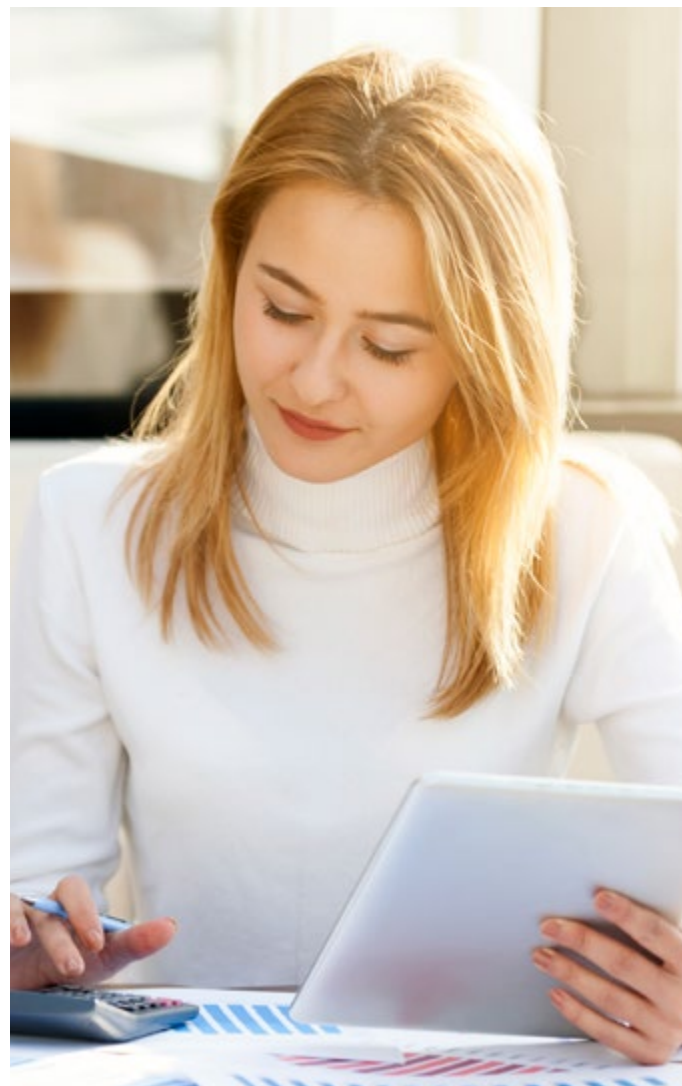
However, by virtue of the Paris Convention, market agents who have registered (i) an invention patent, (ii) a utility model patent, (iii) an industrial design, or (iv) a trademark in any member country of said Convention may use the date of submission of their application in any other country to which said international standard applies.

The term to exercise the right of priority in another country will depend on the type of industrial property to be registered and will begin to run from the submission date of the first registration application.

1. For invention patents and utility models: Twelve (12) months.

2. For industrial designs and trademarks: Six (6) months.

Consequently, individuals who intend to register their right in another country may not be prevented from doing so if the basis is a registration made during said period.



7

Labor Legislation

a. Hiring Systems

1. Domestic Employees

The general hiring rule in Peru is the use of open-ended employment contracts; however, in special cases, the conclusion of fixed-term and part-time agreements is allowed. The main characteristics of each of the agreements are detailed below:

- ▶ **Open-ended Agreements:** They do not have an expressly defined period for termination. This hiring mechanism grants employees all the labor rights and benefits in force in our legal system, which are detailed in “section c” of this chapter.
- ▶ **Fixed-term Agreements:** They give employees all the rights and benefits provided for employees hired for an undetermined term. The legislation subjects its conclusion to the existence of an objective reason or cause that justifies the temporary nature of the agreement (e.g., the start of a new activity, specific work or service, replacement, etc.), its validity being subject to compliance with the requirements provided by law.
- ▶ **Part-time Agreements:** They regulate labor relations that have a working day of less than four (4) hours a day every week. Employees hired part-time are entitled to all current employment benefits, except (i) compensation for unfair dismissal; (ii) severance pay (CTS¹⁵⁵); and (iii) a 30-

day vacation leave (they are only entitled to six working days of vacation time per year).

In all of these agreements, it is possible to agree upon a trial period, during which the employee is not entitled to compensation in the event of unfair dismissal. The trial period begins to run from the beginning of the employment relationship and its term can be at most: (i) three (3) months for all employees in general; (ii) six (6) months for qualified or trusted employees; and (iii) twelve (12) months for management employees. To be valid, the extension of the trial period must be made in writing.

2. Ex-Patriates

The labor relations of foreign citizens who enter Peru to render subordinated services for a company domiciled in the country are regulated by the Foreign Employee Hiring Act. These employees are entitled to the same benefits provided for employees in the private activity labor regime and are subject to the same contributions and taxes. In the case of income tax, the withholding rate will depend on their domiciled or non-domiciled status.

As a general rule, the number of foreign employees should not exceed 20% of the total staff. Additionally, the total remuneration received by foreign employees should not exceed 30% of the total cost of the payroll.

These limits may be exempted for professionals and specialized technicians, or management personnel of new business activity, or in case of business restructuring, among others.

None of the limits on the number of personnel and salary amount applies to foreign employees who carry out work in Peru with an immigrant visa, who are married to Peruvian citizens or have children, parents or siblings of Peruvian nationality, and foreign investors with a permanent investment in Peru of at least five (5) Tax Units, or foreign personnel who, by virtue of bilateral or multilateral agreements signed by the Government of Peru, provide their services in the country, among others.

¹⁵⁵ Please note that the acronym is in Spanish.

b. Types of Work

Regarding the place of provision of services, there are different temporary and permanent regimes in Peruvian legislation that regulate the conditions that must be met to adapt to one or another type of work:

1. In-person Work:

It is the traditional type of work in which employees must physically commute to a pre-established place agreed with the employer for the provision of their services. During the Health Emergency declared as a result of the pandemic, employers are required to take special measures in terms of surveillance, prevention, and control of COVID-19 in the workplace, which include taking preventive measures for collective application, personal protection measures, washing and disinfection of the workplace, medical evaluation of its staff and constant monitoring of suspected cases, among others.

2. Telecommuting:

This legal work regime is characterized by the subordinate performance of work without the physical presence of employees at the company with which they maintain an employment relationship. It is carried out through computers, telecommunication, and similar means, which in turn are used by the company to control and supervise the work performed by employees.

To implement this, there must be a prior agreement between the employee and the employer. In case employees use their own equipment or work items, employers must compensate the employee for all expenses incurred, including communication expenses.

3. Remote Work:

This has been implemented because of the Health Emergency declared as a result of the COVID-19 pandemic. Thus, as of the date of preparation of this document, it is a temporary regime. It is characterized by the provision of subordinate services with the physical presence of employees at their home or place of home isolation, using any means or mechanisms that makes it possible to carry out the work outside the workplace. Unlike

telecommuting, employers can apply it unilaterally, as long as they notify employees of the change of workplace so that services are provided either in person or remotely. Likewise, employers must inform employees about safety and health measures and conditions at work that must be observed during the performance of remote work, and may not affect the remuneration or benefits previously received by the employee.

c. Current Employment Benefits

Employees are entitled to the following employment benefits, the cost of which is borne by employers:

Description	Applicable amount / Rate
Vacation Time	Equivalent to thirty (30) calendar days of rest with a remuneration of a one (1) monthly salary
Statutory Bonuses	Two (2) monthly salaries per year
Severance Pay	1.1666 monthly salaries per year
Profit Sharing	Between 5% and 10% of income before taxes
Family Allowance	PEN 93 per month

► Vacation Time:

The right to thirty (30) calendar days of paid vacation per complete year of service, provided workers meet the vacation record, which is a minimum of days effectively worked as required by law. The vacation period must be taken within the calendar year following the year of services rendered and the related record. In the event that the worker does not take vacation time when due, the employer shall pay one additional month of remuneration as vacation indemnity.

Likewise, employees and employers can agree for the vacation leave to be used ahead of time (on account of a future vacation period) or partially (i.e., in periods of seven (7) and eight (8) uninterrupted days, and the rest of the rest thereof can be used in periods of at least one (1) calendar day).

► **Statutory Bonuses:**

Two (2) bonuses per year, the first in July (Independence Day holidays) and the second in December (Christmas). Employees who leave their job before the months of July or December are entitled to receive the proportional payment of this benefit for the full months completed on the job, provided they have worked at least one full month (incomplete bonus).

► **Severance Pay (CTS¹⁵⁶):**

This is a fringe benefit to cover contingencies arising from termination of employment and promotion of employees and their families. The payment is deposited in the employees' bank account in the months of May and November.

► **Profit Sharing:**

Companies with more than twenty (20) employees that engage in activities that generate business income are required to distribute a percentage of their annual income before taxes among their employees. The percentage of the share is fixed by law, and depends on the company's principal activity, as follows:

Type of Company	Percentage
Fisheries, Telecommunications, and Industrial Companies	10%
Mining, Wholesale and Retail Companies and Restaurants	8%
Companies Engaged in Other Activities	5%

► **Family Allowance:**

Employees who have one or more dependent children under the age of 18, or children over 18 enrolled in vocational or university education, are entitled to this benefit. The amount is equivalent to 10% of the minimum wage, which is equivalent to PEN 93 for 2021.

► **Comprehensive Annual Remuneration:**

With workers who receive a monthly salary of at least two Tax Units (for 2021, one (1) tax unit is equivalent to PEN 4,400) employers can negotiate a comprehensive annual remuneration (RIA¹⁵⁷) to which all the benefits detailed above are added, with the exception of profit sharing, to be paid as provided by law, and which may be paid directly to the worker in monthly installments.



¹⁵⁶ Please note that the acronym is in Spanish.

¹⁵⁷ Please note that the acronym is in Spanish.

d. Taxes and Contributions Levied on Remunerations

Employers must assume the payment of the following taxes and contributions:

Taxes / Contributions	Applicable Rate
Public Health Insurance (EsSalud ¹⁵⁸)	9%
Statutory employer-provided Life and Disability Insurance	Depends on the type of policy
Occupational Disability and Life Insurance	Depends on the type of policy
Pension System	13% for the Public System or 12.94% for the Private System (on average)

► Income Tax:

Employers are responsible for withholding and paying income tax on work income. For this purpose, a projection of the employee's annual earnings is made, to which the rates established indicated below are applied. The approximate monthly deduction will be one-twelfth (1/12th) of the determined annual tax amount, which may be established by following the procedures provided by law, in order to establish the exact amount to be withheld. For domiciled employees, an initial deduction of seven (7) tax units is applied and further to this, the following rates are applied:

Sum of the Net Work Income and of the Foreign Source Income	Rate
Up to 5 Tax Units	8%
More than 5 Tax Units and up to 20 Tax Units	14%
More than 20 Tax Units and up to 35 Tax Units	17%
More than 35 Tax Units and up to 45 Tax Units	20%
More than 45 Tax Units	30%

For non-domiciled employees, the rate is 30% without deductions.

Moreover, in addition to the deduction of the seven (7) tax units applicable to the work income of parties domiciled in Peru for tax purposes, it is possible to deduct the sum of three (3) tax units from the respective tax basis, by virtue of expenses incurred in the leasing of real properties, interest on first-home mortgage credits, professional fees paid to freelancers (such as doctors, dentists, attorneys, veterinarians, etc., provided that they issue the respective receipts for professional fees) and social medical insurance contributions (EsSalud) for household employees.

► Public Health Insurance (EsSalud):

This contribution is paid by the employers and is designed to finance the public health system (EsSalud) so that the system may provide healthcare services to employees and financial assistance in case of disability through the payment of subsidies. The collection of this amount is undertaken by the National Superintendency of Customs and Tax Administration (SUNAT¹⁵⁹) to which employers make this payment. The amount contributed is equivalent to 9% of the employee's monthly remuneration. If the company provides health coverage to its employees using its own resources or through a Healthcare Service Provider Company (EPS¹⁶⁰) it may request a credit of up to 25% of the EsSalud contribution, provided it complies with the limits established by law.

► Statutory Employer-Provided Life and Disability Insurance:

This is a collective insurance. The premium depends on the number of insured employees, the work they carry out and, in general, the terms agreed to with the insurance company.

► Pension System:

Employees may join the National Pension System (SNP¹⁶¹) or the Private Pension System (SPP¹⁶²), which are mutually exclusive. This contribution is to be assumed fully by employees, with employers being responsible solely for its collection.

► Other Contributions:

Other contributions depend on the activity performed by the companies, for example:

► **Occupational Disability and Life Insurance:**

A mandatory insurance to be paid by companies whose activities involve a high level of risk, and which grants additional coverage for health and pensions. The contract for health services may be entered into with EsSalud or with a Healthcare Service Provider Company (EPS¹⁶³); while pension-related services may be contracted with the Government Agency for Pension Fund Management (ONP¹⁶⁴) or with a private insurance company. The rates depend on the type of activity and/or the terms agreed upon with the insurance company.

► **Contribution to the National Industrial Vocational Training Service (SENATI¹⁶⁵):**

Companies engaged in industrial activities included in Category D of the Uniform International Industrial Classification (UIC) are under the obligation to make a contribution to (SENATI). The contribution amounts to 0.75% of the employee's remuneration, according to the conditions provided by law.

e. Termination of Employment Contracts

Employment contracts are terminated in the following cases:

- Compliance with the condition subsequent or the termination of the period of fixed-term agreements.
- By agreement between employees and employers, which should be put into writing.
- Resignation of employees, who must provide thirty (30) days prior notice.
- Due to permanent absolute disability or death of employees.
- Retirement of employees.
- Justified dismissal, in which the cause must be related to the skill or conduct of employees, according to conditions established under national legislation.
- In cases established for collective dismissal, pursuant to Peruvian law.

The dismissal will be subject to the verification of an objective cause that justifies the action, pursuant to law. If the cause is found not to exist, employers will be penalized via the payment of an indemnity. However, the Constitutional Court has established certain cases in which employees may also request their reinstatement into their job position, as per the following chart:

Type of Dismissal	Description	Consequences
Unfounded Dismissal	When employers fail to state a legal cause or ground for dismissal.	Reinstatement / Indemnity at the employee's discretion
Fraudulent Dismissal	When employers falsely charge the worker of committing gross negligence.	Reinstatement / Indemnity at the employee's discretion
Null and Void Dismissal	When the measure violates the fundamental rights of employees.	Reinstatement
Dismissal with Reasonable Charge of Gross Negligence	When the gross negligence is not proven during the process, although due process was followed as required by law.	Indemnity
Indirect Dismissal	When employees are subject to acts of hostility comparable to dismissal.	Indemnity

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Indemnity will only be paid once the trial period has been completed (first three months of the employment contract) and is limited to twelve (12) monthly remunerations.

In the case of employees who are hired for an indefinite term, the amount to be paid is one and a half months' remuneration for each year of completed service. On the other hand, in the case of employees hired under a fixed-term agreement, indemnity is one and a half months (1 1/2) remuneration for each month not worked up until the termination thereof. In both cases, indemnity is paid in fractions of 12ths and 30ths per year.

Management staff or employees in positions of trust who are hired as such may not request reinstatement, and are only entitled to receive an indemnity for dismissal, unless they have previously held an ordinary position, in which case they may also be entitled to reinstatement into such ordinary position.

f. Additional Obligations

Companies have the following obligations in terms of occupational health and safety, personnel well-being, among others:

- ▶ Establishing a Committee on Occupational Health and Safety, which must be made up of equal numbers of representatives of the employer and employees. This obligation is only applicable for companies with twenty (20) or more employees; otherwise, employees must appoint a health and safety supervisor.
- ▶ Preparing internal regulations for occupational health and safety, which must be disseminated among all employees by physical or digital means. This obligation will also be applicable only in the case of companies with twenty (20) or more employees.
- ▶ Providing annual training on occupational health and safety, based on the position and work environment, technologies and work equipment, the measures that allow adaptation and prevention of risks, and the periodic updating of knowledge. Training sessions must be in person when they are carried out at the time of hiring, or when there are changes in the job duties, position or task type or assigned technology.
- ▶ Preparing internal work regulations, which must be handed out to all employees. This is mandatory for companies with more than one hundred (100) employees.
- ▶ Implementing, in the case of a company in which twenty (20) or more women of childbearing age work, a breastfeeding area, that is, a especially prepared environment for working mothers to extract their breast milk during working hours.
- ▶ Setting up an Intervention Committee against Sexual Harassment in the case of companies with more than twenty (20) employees. Said Committee will consist of four (4) members: two (2) representatives of the employees and two (2) representatives of the employer, ensuring gender parity in both cases.
- ▶ Companies with twenty (20) or more employees must have policies to prevent and punish sexual harassment, which must specify the reporting channels, the investigation and sanction procedure, and the deadlines for each stage.
- ▶ Providing training on sexual harassment at the beginning of the employment relationship in order to raise awareness in employees on the importance of fighting sexual harassment; and an annual specialized training for the Human Resources area and the Intervention Committee against Sexual Harassment.
- ▶ Grouping job positions into categories and duties, applying objective criteria based on the tasks involved, the skills needed to perform them and the job profile. The tables must contain the job positions included in the category, a general description of the characteristics of the job positions, and the ordering and/or ranking of the categories based on their assessment and the need for the economic activity.
- ▶ Implementing a salary policy and informing employees about its content.
- ▶ Companies with more than fifty (50) employees must hire people with disabilities in a proportion of no less than 3% of their staff.
- ▶ Companies with more than one hundred (100) employees must have a licensed Social Worker, as well as an Industrial Relations or Human Resources area.

g. Immigration

Foreigners may apply for one of the visas listed below, depending on the activity they wish to undertake in Peru:

Classification	Type of Visa	Permitted Activities
Tourist Visa	Temporary	Limited to tourist visits, recreation, or similar activities. Paid or lucrative activities are not permitted.
Business Visa	Temporary	Allows them to carry out business, legal, contractual specialized technical assistance, or similar activities. It is valid for a cumulative stay time of up to 183 days within a 365-day period. It is not extendable.
Work Visa	Resident	Allows them to carry out lucrative activities in a subordinate or independent way for the public or private sectors, by virtue of an employment contract, administrative relationship or service agreement. Includes employees of a transnational or international corporation who travel to Peru to work in a company of the same economic group or holding company, to work as senior management or trust personnel or as a specialist or specialized employee.
Investor Visa	Resident	Allows them to establish, develop or manage one or more legal investments within the framework of Peruvian legislation.
Designated Work Visa	Resident	Allows them to carry out work activities in the national territory that consist of carrying out a specific task or function or a job that requires professional, commercial or specialized technical knowledge when sent by a foreign employer. They cannot carry out remunerated or lucrative activities on their own account.
Work Visa /Temporary Designated Work Visa	Temporary	Allows them to carry out the same activities as a Resident Employee and Designated Resident, but without the intention of establishing their residence in the country.
Student Visa	Resident	Allows them to pursue regular higher education, basic education, arts or trades in institutions recognized by the Peruvian State. It includes student exchanges, undergraduate or professional internships, cultural exchanges, and other training modalities recognized by Peru.

In the case of foreigners coming from Mercosur countries (Brazil, Argentina, Chile, Uruguay, Colombia, Bolivia), from CAN¹⁶⁶ countries (Bolivia, Colombia, Ecuador, in addition to Peru) or from countries with which there are specific immigration agreements (Spain, Argentina, and others), other immigration provisions and/or facilities may be applicable.

h. Supervisory Body

The National Superintendency for Labor Audits (SUNAFIL¹⁶⁷) is a specialized technical entity attached to the Ministry of Labor and Employment Promotion (MTPE¹⁶⁸) and responsible for promoting, supervising, and auditing compliance with labor laws and laws on occupational health and safety. It designs and conducts nationwide all duties and competencies established in Law 28806—the General Labor Inspection Act, and acts as the central authority and guiding entity of the Labor Inspection System, in accordance with national and sector policies and plans, as well as the institutional policies and technical guidelines of the MTPE.



Companies that have more than

+50 employees

must hire people with disabilities in a proportion not less than

3% of their staff

8

Accounting Standards

The Peruvian Business Corporations Act (LGS¹⁶⁹) establishes that the financial statements of companies incorporated in Peru must follow the general accounting principles accepted in Peru and other applicable legal provisions. The Peruvian Accounting Standards Board (CNC¹⁷⁰) has established that the general accounting principles are basically the standards issued by the International Financial Reporting Standards Board (IFRSB), including the International Financial Reporting Standards (IFRS), the IFRS Interpretation Committee (IFRIC), and the Standing Interpretations Committee (SIC), and the specific provisions approved for particular businesses (banks, insurance companies, etc.). Likewise, on a supplementary basis, the U.S. Generally Accepted Accounting Principles (GAAPs) are applied.

The CNC is responsible for issuing the general chart of accounts for companies and methodologies that apply to both private business and government entities.

The CNC adheres to the standards approved by the International Financial Reporting Standards Board (IFRSB) which are explicitly approved by the CNC and published in “El Peruano” Official Gazette, indicating their date of approval in Peru, which may differ from the internationally approved date.

Companies that issue debt or shares in the capital market, as well as financial crowdfunding platform administration companies, are subject to regulation by the Peruvian

¹⁶⁶ Please note that the acronym is in Spanish.

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Superintendency of the Securities Market (SMV)¹⁷¹.

Companies supervised by this institution must issue their financial statements in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The annual financial information given by companies supervised by the SMV must be audited and include the previous year for comparative purposes. Quarterly reports do not need to be audited. The audit must be conducted according to the regulations of the International Auditing and Assurance Board issued by the International Federation of Accountants (IFAC).

On April 4, 2016, the Constitutional Court declared as unconstitutional the obligation for companies not listed in the Public Registry of the Securities Market to submit audited financial statements. Such obligation was in force as from June 2011.

In addition, entities belonging to the Peruvian financial industry, which include certain financial technology companies such as electronic money issuers, are regulated by the Superintendency of Banking, Insurance and Private Pension Fund Management Companies (SBS¹⁷²). This regulator requires supervised entities to keep their accounting books and prepare and submit their financial statements in accordance with the requirements described in the Accounting Manual for Financial System Companies. Although said manual is based on the principles proposed by the IFRS locally approved by the CNC and the IFRS internationally approved by the IASB, it is important to emphasize that the SBS has established in said manual certain prudent accounting standards and practices that are different from IFRS requirements and must be mandatorily applied.

As of the date of publication of this guide, the CNC and the SBS have not issued specific accounting guidelines for financial technology companies incorporated in Peru. In this regard, said companies will be governed in accordance with the guidelines established in the accounting framework described above.

¹⁷¹ Please note that the acronym is in Spanish.

¹⁷² Please note that the acronym is in Spanish.



FinTech Companies in Latin America

- | | | | |
|---|-----------|---|----------------------------|
| 1 | Mexico | 5 | Chile |
| 2 | Brazil | 6 | Panama and Central America |
| 3 | Argentina | 7 | Ecuador |
| 4 | Colombia | 8 | Uruguay |



Mexico

1

FinTech Act

In Mexico, the FinTech ecosystem and different participation schemes have evolved significantly.

As of the publication of the Act to Regulate Financial Technology Institutions (“LITF”¹⁷³) in March 2018, a legal system was established with the aim to provide said industry with elements that support a greater growth and clearly establish the activities and entities that must be subject to the new regulations.

This initial system was later supplemented with the issuance of various secondary legal instruments (provisions, circular letters, regulations) related, among other aspects, to the activities to be carried out, regulation to prevent money laundering, information reports to be submitted by the Financial Technology Institutions, among other subjects.

Secondary Regulations

The secondary regulations issued after the publication of the LITF are the following:

Banco de México

- ▶ CIRCULAR LETTER 12-2018 aimed at the transactions carried out by electronic payment funds institutions.
- ▶ CIRCULAR LETTER 4-2019 aimed at credit institutions and financial technology institutions in relation to transactions with virtual assets.
- ▶ CIRCULAR LETTER 5-2019 aimed at legal entities interested in obtaining an authorization for novel models..
- ▶ CIRCULAR LETTER 6-2019 aimed at crowdfunding institutions regarding foreign currency transactions and information reports from crowdfunding institutions.
- ▶ CIRCULAR LETTER 2/2020 on standardized computer application programming interfaces to which reference is made in Section 76 of the LITF.

¹⁷³ Please note that the acronym is in Spanish.

National Banking and Securities Commission (CNBV¹⁷⁴)

- ▶ General provisions relating to standardized computer application programming interfaces to which reference is made in the LITF.
- ▶ General provisions on Information requirements made by authorities to which reference is made in Sections 142 of the Credit Institutions Act, 34 of the Popular Savings and Credit Act, 44 of the Credit Unions Act, 69 of the Act to Regulate the Activities of Savings and Loan Credit Unions, 55 of the Investment Funds Act, and 73 of the Act to Regulate Financial Technology Institutions.
- ▶ General provisions applicable to Financial Technology Institutions.
- ▶ General provisions relating to companies authorized to operate new models to which reference is made in the LITF.

CNBV and Banco de México (jointly)

Provisions applicable to Electronic Payment Fund Institutions to which reference is made in Sections 48, second paragraph; 54, first paragraph; and 56, first and second paragraphs of the LITF.

National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF¹⁷⁵)

General provisions of CONDUSEF regarding transparency and sound practices applicable to financial technology institutions.

National Commission of the Retirement Savings System

Guidelines for the disclosure of the sanctions imposed by the National Commission of the Retirement Savings Systems in terms of the LITF.

Secretariat of Finance and Public Credit

- ▶ General provisions to which reference is made in Section 58 of the LITF.
- ▶ General provisions applicable to new models to which reference is made in the LITF.

2

Financial Technology Institutions

It should be noted that the LITF recognizes the existence of two types of Financial Technology Institutions:

- ▶ Collective Financing Institution (IFC¹⁷⁶)
- ▶ Electronic Payment Funds Institution (IFPE¹⁷⁷)

In this regard, the LITF indicates that an IFC is a legal entity authorized by the CNBV to carry out activities aimed at facilitating contact among people from the general public in order to grant financing to each other, with the IFC carrying out such activities in a regular and professional way through computer applications, interfaces, internet websites or any other means of electronic or digital communication.

¹⁷⁴ Please note that the acronym is in Spanish.

¹⁷⁵ Please note that the acronym is in Spanish.

¹⁷⁶ Please note that the acronym is in Spanish.

¹⁷⁷ Please note that the acronym is in Spanish.



The following are some of the transactions that can be carried out through IFCs:

► **Crowdlending:**

It intends for investors to grant loans, credits, consumer loans or any other financing instrument generating a direct or contingent liability for the requesting parties.

► **Equity crowdfunding:**

It intends for investors to buy or acquire securities representing the capital stock of legal entities acting as requesting parties.

► **Co-ownership or Royalty crowdfundings:**

It intends for investors and requesting parties to enter into partnerships or any other type of agreement whereby investors acquire an aliquot or share in a present or future asset or in the income, profits, royalties or losses that are obtained from the performance of one or more activities or projects of a requesting party.

It should be noted that IFCs may also undertake additional activities, such as the following:

- Receiving and publishing requests for crowdfunding transactions from requesting parties and their projects through the interface, website or electronic or digital means of communication that they use to carry out their activities.
- Making easier for potential investors to know the characteristics of the requesting party's requests for crowdfunding transactions and their projects through the means mentioned above.
- Facilitating the use of electronic communication channels so that investors and requesting parties can interact through the above-referred means.
- Obtaining loans and credits for the fulfillment of their corporate purpose, without these being used to establish schemes that allow project risks to be shared with investors.
- Issuing securities on their own account.
- Acquiring or leasing the movable and immovable assets necessary for the fulfillment of their corporate purpose.
- Making deposits in financial entities.
- Establishing trusts that are necessary for the fulfillment of their corporate purpose.
- Making investments in other companies that provide auxiliary, supplementary or real estate services.

Regarding the Electronic Payment Funds Institutions, the LITF indicates that an IFPE is a legal entity authorized by the CNBV to provide services to the public in a regular and professional manner, consisting of the issuance, administration, redemption and transmission of electronic payment funds through computer applications, interfaces, internet websites or any other means of electronic or digital communication, through the following activities:

- Opening of electronic payment funds accounts for each customer, in which payments equivalent to the amount of electronic payment funds issued against the receipt of amounts of money, in domestic or foreign currency, or of specific virtual assets are recorded.

- ▶ Execution of electronic payment funds transfers between customers by means of credits and debits in the accounts.
- ▶ Execution of transfers of amounts of money in domestic or foreign currency or virtual assets by means of credits and debits in the accounts between its customers and those of another IFPE, as well as from account holders or users of other Financial Entities or foreign entities authorized to carry out similar transactions.
- ▶ Delivery of amounts of money or virtual assets equivalent to the same amount of electronic payment funds in an electronic payment funds account through the respective debit in said account.
- ▶ Updating of the account register in relation to the deposit, transfer and withdrawal of electronic payment funds.

At the same time, IFPEs can develop additional activities, such as the following:

- ▶ Issuing, selling or managing instruments for the disposal of electronic payment funds.
- ▶ Providing the money transmission service.
- ▶ Providing services related to disposal means networks.
- ▶ Processing information related to payment services corresponding to electronic payment funds or any other payment methods.
- ▶ Granting credits or loans in the form of overdrafts in the accounts they manage derived from the transmission of electronic payment funds.
- ▶ Carrying out transactions with virtual assets.
- ▶ Obtaining loans and credits for the fulfillment of their corporate purpose, not being able to allocate the resources obtained for the issuance of electronic payment funds.
- ▶ Issuing securities on their own account, not being able to allocate the resources obtained for the issuance of electronic payment funds.
- ▶ Opening demand or time deposit accounts in financial entities.
- ▶ Acquiring or leasing the movable and immovable assets necessary for the fulfillment of their corporate purpose.

In addition to ITFs, the legislator in Mexico, following the example that has been set in various countries, established the recognition of the so-called “Novel Models,” which in terms of the LITF refer to:

“Models that, for the provision of financial services, use tools or technological means with modalities other than those existing in the market at the time the temporary authorization is granted under terms of this Act.”

In accordance with the foregoing, business corporations other than ITFs, Financial Entities and other parties supervised by a Supervisory Commission or by Banco de Mexico must obtain authorization so that they may, through these Novel Models, carry out any activity requiring an authorization, registration or concession pursuant to the LITF or other financial law.

In this regard, for the operation of Novel Models, Financial Authorities, at their discretion and after reviewing compliance with the criteria and conditions established in the LITF, may grant a conditional temporary authorization to said companies interested in providing financial services through said Novel Models, which may not last longer than two (2) years.



Organization and Operation

Regarding the organization and operation of an ITF, the LITF establishes that it is required to obtain an authorization that will be granted by the CNBV.

To this end, diverse information and documentation must be submitted, such as:

1

Request form

- Name of the institution, principal place of business in the national territory to receive notices and appointment of at least one representative.
- Organizations of the institution.
- Information regarding shareholders and capital structure.
- Administration and oversight.
- Institution model.
- Business plan and project justification.
- Annexes to the request form.

2

Documentation and information to be submitted with the request form for the organization and operation of an Institution

- a. Powers of the requesting party's representatives.
- b. Draft bylaws or amendments thereto.
- c. Business plan.
- d. Financial feasibility study.
- e. Proposed manuals, including:
 - Draft Operation Manual
 - Draft Internal Control Manual
 - Draft Risk Management Manual
 - Draft Manual for the Use of Electronic Media
 - Draft Collection Manual
- f. List of agreements or contracts entered into with other ITFs or technology service providers.
- g. List and information of the people who, directly or indirectly, intend to hold a share in the capital stock.

3

Information on the Prevention of Money Laundering and Terrorist Financing

4

Commencement of operations

The ITF that receives authorization from the CNBV must prove to said public agency, within at least thirty (30) business days before the commencement of operations, that it complies with certain requirements, such as:

- Registration data in the Registry of Companies.
- Regulatory capital subscribed and paid-up.
- Directors and managers who comply with established regulations.
- Technological infrastructure, internal controls, policies, procedures, manuals and other documentation that they must have.

3

Current Situation

As noted at the beginning of this section, there are various schemes adopted in Mexico by a very significant number of companies, both new and existing, engaged in technology-related novel activities, but that do not strictly fall within any of the assumptions corresponding to Financial Technology Institutions. These are, therefore, non-regulated entities.

These “non-regulated” FinTech companies are found in various commercial areas, as well as promoting access to loans, data processing and the collective services, as well as innovative mobile applications that facilitate commercial access and financial connection between consumers and traditional financial institutions, commercial companies and FinTech companies.

In addition to this reality, it is clear that, in the face of technological development and commercial and financial creativity, there will be various “hybrid” models in the FinTech industry.

We will be present and perceptive to be able to accompany and support this business development, as well as attentive to the reaction of the authorities, regulators and legislators to the growth of this business and financial phenomenon in Mexico.

Participation of Traditional Financial Entities in the FinTech Scheme

Prior to the LITF, among the traditional financial entities led by credit institutions, there was some concern regarding the participation of the new institutions that were to be authorized as FinTech participants, coupled with the lack of knowledge of the regulatory scope that would be applied to said newcomers.

Likewise, at that time it was not clear what the synergy of services to be provided by financial entities vs ITFs was going to be.

Notwithstanding the foregoing, as from the publication of the LITF in March 2018, together with the reform of various legal provisions regulating traditional financial entities (i.e., Credit Institutions Act, Securities Market Act, etc.), an important opportunity arose for both financial institutions and ITFs to carry out the activities subject-matter of authorization corresponding to each of them, and additionally to be able to coexist in a collaborative environment for the benefit of the entities themselves, ITFs and the public user of the services.

Thus, as of today, there is an active and diverse participation of banks and other financial entities in the FinTech world, as can be seen from schemes such as the following:

- ▶ Direct investment in ITFs
- ▶ Integration of ITFs in financial groups
- ▶ Provision of supplementary services between entities and ITFs
- ▶ Development of technological applications
- ▶ Generation of new platforms and remote access to users

Based on the foregoing, we foresee a promising future of collaboration and participation between financial entities and ITFs.



Brazil

1

Current Situation¹⁷⁸

Brazil is the largest FinTech market in Latin America, accounting for 50.5% of the FinTech startups in the Region. For example, Brazil's vertical payment solutions comprise approximately 166 FinTech companies, which represent 16.3% of the more than a thousand FinTech companies in Brazil.

1,174

From 2015 to 2021, the number of FinTech companies in Brazil increased from 474 to 1,174.

In addition, investment in Brazilian FinTech companies totaled approximately USD 1.6 billion in 2019, and so far in 2021 roughly USD 500 million has been invested in Brazil's FinTech sector. This represents an average of 25% of the aggregate investment made in startups of the financial sector in 2020. Thus, the FinTech sector is the leading business in Brazil's startup ecosystem, with a growth of 34%.

However, Brazil currently has nearly 60 million unbanked people out of a total of about 210 million inhabitants, so there is still much work left to include the population into the financial system.

Notwithstanding the foregoing, it is also important to mention the progress made by the banks to accelerate their digital transformation process. According to data from Banco Central do Brasil (BCB)¹⁷⁹ banks in Brazil closed nearly 1,500 branches in 2017—a new historical record in the country. This reduction was led by state bank Banco do Brasil and Bradesco, the country's second-largest private bank. At the same time, the volume of resources for technology in the banking industry increased by 5%, and resources for software increased by 17%, equivalent to approximately USD 2.6 billion, according to a report by the Brazilian Federation of Banks (Febraban)¹⁸⁰¹⁸¹.

¹⁷⁸ International Trade Administration, Brazil; Country Commercial Guide. Last updated on January 21, 2021.

¹⁷⁹ Please note that the acronym is in Spanish.

¹⁸⁰ Please note that the acronym is in Spanish.

¹⁸¹ *El Economista*; *La banca brasileña acelera su proceso hacia su digitalización*; 2018.

The number of digital banking transactions increased in 2019, especially concerning “mobile” transactions. An example of a bank that began to implement digital solutions was BTG Pactual, which launched BTG Pactual Digital. Bradesco also launched a digital card app called “Bitz,” allowing users to have a credit card without fees, while Banco Itaú launched ITI, a complete financial services platform based on the bank’s digital checking account.

FinTech and Financial Ecosystem Actions Undertaken During the Pandemic:

► FinTech

FinTech companies played an important role in accessing financial products and services during the pandemic, which was also promoted by the Brazilian government. For example, in March 2020, the National Monetary Council (CMN¹⁸²) authorized certain FinTech companies to issue credit cards. These changes were applied to direct credit companies (SCD) and peer-to-peer lending companies (SEP) with the aim that such FinTech companies would contribute “in a countercyclical manner” to the coronavirus crisis.

Furthermore, the CMN issued rules to govern FinTech companies and credit unions in the renegotiation of debts in order to minimize the effects of the pandemic and extend financing deadlines in favor of businesses and families.

Another important role of FinTech companies during the pandemic was the support they provided to access government stimulus payments. For example, Mercado Libre’s Mercado Pago solution took on great significance as it gained more than 3.5 million users since the start of the Emergency Aid granted during the pandemic, which caused the use of the app’s payment functionality to increase by 63%.

Mercado Pago (Mercado Libre)

3.5 million new users

► Banks

The coronavirus crisis also led to an accelerated digital transformation of banking. One example of this was the boom in the use of virtual assistants and digital channels for customer service offered by banks in Brazil, such as:

► Artificial intelligence and digital channels:

Digital demand due to the pandemic led Banco Santander to launch its “Gente” bot in 2020, which from its launch until February 2021 reduced interactions with call centers by 46%, as Gente has the capacity to respond to more than 19,000 questions, according to Santander.

Banco Itaú also provided an artificial intelligence service for its customers through WhatsApp, the use of which increased by 50% during the first month of confinement in 2020, while its digital banking service reached 6 million customers by April 2021 and is expected to reach 15 million by the end of the year.

► Cloud migration:

Banco Itaú has also stated that cloud migration is another of its strategic objectives, as it plans to host 50% of its services there by 2022. In addition, it pointed out that the task being undertaken would include rewriting its systems codes, updating solutions, using microservice architectures, etc., to maximize the benefits of such a migration.

¹⁸² Please note that the acronym is in Spanish.

2

Regulatory Landscape

In general, the Brazilian financial sector is heavily regulated and the rules are mainly established by the National Monetary Council (CMN¹⁸³) Banco Central do Brasil (BCB¹⁸⁴) and the Securities Commission. However, it should be borne in mind that companies are regulated based on their size, which in the case of the FinTech subsector is still pending definition. In this regard, we can highlight:

► Free Basic Operations:

By Resolution 3919/2010, financial companies were required to provide certain basic services, such as internet banking inquiries and cash withdrawals, free of charge. This opened the way for FinTech companies to enter the market and propose low fees.

► Opening of the Brazilian Payment System:

Law 12.865/2013 authorized the incorporation of Payment Institutions into the Brazilian Payment System, which used to be only applicable to banks. This provided a boost for FinTech operations. Notwithstanding the foregoing, it is worth mentioning that the Instant Payment System (PIX) which allows for transactions to take place in a maximum of ten (10) seconds, was launched in October 2020. Below we discuss more about PIX—a system used by both banks and FinTech companies.

► Loan Regulation:

In April 2018, the BCB issued Resolution 4.656/18, which allowed FinTech companies to grant loans without involving banks.

► FinTech Center:

The Brazilian Securities Commission (CVM¹⁸⁵) created an internal “FinTech Center” to provide a better understanding of the FinTech market and guide future regulations.

► Regulatory Sandbox:

The BCB and the CMN approved the regulatory framework for the Regulatory Sandbox, which creates an environment where companies, with prior authorization, can test projects leading to financial sector innovation and also have access to flexible regulatory requirements during this trial period, which will be accompanied by regulations to reduce the risks involved.

► Crowdfunding:

Using CVM Instruction (ICVM) 588, crowdfunding activities in Brazil are authorized in their two forms: equity and lending. The regulations exclude (i) donation-based crowdfunding; (ii) rewards- or product-based crowdfunding; and (iii) “peer-to-peer” lending, which have already been regulated by the BCB.

► Cybersecurity:

Resolution 4.658/2018 introduced regulations relating to the procurement of cloud computing, data storage, and processing services. This regulation also establishes the cybersecurity policy governing financial institutions, requiring the inclusion of principles and guidelines to ensure the confidentiality, integrity, and availability of the data and information systems used.

¹⁸³ Please note that the acronym is in Spanish.

¹⁸⁴ Please note that the acronym is in Spanish.

¹⁸⁵ Please note that the acronym is in Spanish.

► **Open Banking:**

In April 2019, Banco Central do Brasil published Release Note 33.455, whereby it issued the main guidelines for the regulation of Open Banking in Brazil—a model that is being implemented in phases.

It is important to point out that Open Banking is one of FinTech's main drivers in 2021 since, according to a study carried out by the Distrito startup community, there are more than forty (40) FinTech companies providing technology services for Open Banking in Brazil.

The incorporation of Open Banking will allow customers—with their prior authorization—to share their information with FinTech companies in order to achieve better cooperation between the banking system and FinTech companies, in such a way as to increase market opportunities for consumers, e.g., in e-banking, e-commerce, among others. It will also facilitate the integration of systems and platforms, which will bring about greater freedom to choose financial services and increase competitiveness.

FinTech verticals in Brazil

Brazilian FinTech companies are engaged in the following lines of business:

- Payment and remittances
- Financial management of companies
- Lending
- Personal financial management
- Crowdfunding and wealth management
- Insurtech
- Virtual currency and blockchain
- Alternative scoring companies
- Trade and capital market
- Digital banks
- Technologies for financial institutions
- Open Banking

In this respect, we can highlight some leading verticals:

► **Digital Banking:**

The advent of the COVID-19 pandemic has undoubtedly brought about a quicker larger-scale adoption of digital solutions, which has caused digital banking verticals to be well established in Brazil—one of the countries with the greatest reach of banking websites in all Latin America.

► **Insurtech:**

We must highlight the increasing number of companies engaged in solving market gaps through the modernization of traditional businesses and the use of new technologies.

In this regard, the Insurtech sector has found acceptance in operations aimed at streamlining bureaucratic processes, reducing contract prices, facilitating contracting, understanding people's digital behavior, and creating new and more effective products based on data analysis.

► **Payment:**

Digital wallets are gaining more popularity in Brazil each year; however, they were boosted even further in 2020 due to the new conditions imposed by the health crisis. Thus, there has been a significant increase in the use of electronic wallets, with 38% of Brazilians already using digital wallets in 2019, while this figure reached 89% in 2021.

3

Diagnosis of the Main Transactions

Some FinTech transactions to be highlighted in the Brazilian market are:

► Recargapay digital portfolio

A FinTech that enables mobile payments throughout Brazil, which had a USD 70 million profit from foreign investment funds.

► Banco BV

This bank contributed USD 18.5 million to Weel, a credit FinTech for small and medium-sized businesses that works with artificial intelligence.

► Sinqia

It was one of the leading FinTech companies in the technology sector for the financial market and invested more than BRL 50 million in innovation to start a financial service revolution. It is currently working with software solutions for credit and investment management, control, custody, support, charge and customers, and consultancy and subcontracting services.

► Nubank

It is one of Brazil's best-known FinTech companies. In 2020, Nubank achieved 26 million customers and a balance of deposits of BRL 17.3 billion, while it received an investment of USD 500 million in early 2021.

► Rebel

It was the second-largest FinTech company with an investment share in the sector in 2020. This FinTech company uses artificial intelligence to provide tailored credit analysis and calculate rates according to each customer's profile based on an algorithm containing over 2,000 variables to achieve a result.

Recargapay

USD70 million profit

from foreign investment funds.

Nubank

USD500 million investment

at the beginning of the year.

4

Main Innovations and Technologies Used

a. National Instant Payment System¹⁸⁶

FinTech companies and banks are currently using PIX (National Instant Payment System) as a tool to integrate transactions and improve competitiveness among Brazilian banks.

This system provided by the BCB differs from other existing systems in Brazil, such as TED¹⁸⁷ (Available Electronic Transfer) and DOC¹⁸⁸ (Credit Order Document) because it allows payments to be made at any day and time, and it works in real time and 24/7. PIX also allows for transfers and payments in up to ten seconds and includes free transfers between individuals. In this way, compared to other transfer media with more expensive options and time constraints, PIX brings competitiveness to the Brazilian market.

According to the BCB, users only need a token to perform PIX transactions, which can be the customer's cellphone number, e-mail, CPF (Individual Tax ID Number) or a random key, which

allows the system to know who will receive the money. In this regard, the following transactions can be carried out:

- ▶ Between individuals
- ▶ Between individuals and commercial establishments
- ▶ Between establishments
- ▶ Payments for government entities, in the case of taxes and fees

All the foregoing benefits have led to greater adoption of PIX, with a volume of transactions ranging from 5,000 and 6,000 million (USD 930 million and USD 1.12 billion) on a daily basis.

In addition, while PIX enables payments via QR codes, Banco do Brasil has added a new feature that allows users to use WhatsApp to make payments through the PIX system. This feature can be activated by customers by adding the virtual assistant of Banco do Brasil to their contact book, so that they can then interact with that chatbot, which reads the QR codes for payments and can initiate transactions with voice commands in WhatsApp.



¹⁸⁶ (i) Iupana; Pix despegua en Brasil; 2021. (iii) Nubank; Pix, TED y DOC: ¿cuál es la diferencia?

¹⁸⁷ Please note that the acronym is in Spanish.

¹⁸⁸ Please note that the acronym is in Spanish.

b. Main Technologies:

The main technologies used in Brazil's FinTech sector are QR codes, Artificial Intelligence (AI) and Analytics, as well as those for cybersecurity and information security.

It should also be noted that the BCB uses Artificial Intelligence techniques intending to broaden its use in the coming years. The main Artificial Intelligence applications that have been implemented or are in the process of being implemented are:

► ADAM:

Machine learning (ML)-based credit operations sampling system.

► Cross-Guarantee:

For verification of personal guarantees based on artificial neural network.

► Blitz:

ML-based customer information analysis.

► Pythosz:

ML-based fraud detection system and natural language processing.

► EVE:

ML-based automated inspection tool, natural language processing, and artificial neural network.

► MARIA:

Automatic analysis of inspection and audit reports based on natural language processing (synthesis).



FinTech Internationalization Trend

- During 2020, at least 40% of companies in Brazil's FinTech ecosystem are planning their international expansion into the United States, while 24% are already operating in other countries such as Mexico.
- During 2020, Brazil captured over USD 100 million through investment operations, maintaining a promising and constantly evolving profile for the Brazilian market.
- In addition, the BCB also has planned to enable the PIX system to be used for international transfers in 2022 or 2023, after the approval of the exchange rate legislation currently being discussed in Congress.

Brazil

**+USD100 million
gained**

through investment operations.



Argentina

1

Current Situation

During 2021, the businesses in the financial sector and FinTech companies have been in the process of evolving within a context of uncertainty and economic contraction. On the financial industry's side, its first half was one of the worst in terms of profitability due to the effects of COVID-19 (increase in delinquency, impact on forecasts, reduction in activity levels, grace periods, reduction of rates, and demand for credits) as well as of the macroeconomic situation (high inflation rates, limits on active and passive rates imposed by the Banco Central de la República Argentina (BCRA¹⁸⁹) increase in direct taxes on financial transactions, among others).

In the FinTech sector, the growth stage continues with significant opportunities, but with certain red flags. As for opportunities, restrictions on circulation and new habits were the driver of online purchases and payments, and thus of the use of digital wallets. In this regard, the data is clear:

- ▶ The holding of virtual accounts (CVU) offered by payment service providers (PSPs) increased from 3% of the adult population in March 2019 to 24% in December 2020, thus becoming the second transactional account type with the greatest coverage by the end of 2020.
- ▶ Volume increase of 90% in electronic transfers per adult in 2020. They experienced an 86% increase through home banking operations and a 167% increase through mobile banking operations.
- ▶ Opening of more than 5 million bank accounts during the second quarter of 2020 associated with the payment of State social aid during the pandemic.
- ▶ However, this increase also had a negative side to it—the exponential rise in cybercrime.

¹⁸⁹ Please note that the acronym is in Spanish.

Furthermore, the supply and variety of services increased and evolved in a very positive way, generating a better user experience that will allow for sustained loyalty and use of these services even after the restrictions have been lifted. Beyond that, the current context presents some challenges for these companies. The incipient increase in the regulations imposed by the BCRA, the Government Administration of Public Revenue (AGIP¹⁹⁰) and the law governing the opening of the payments market (fee ceiling, multiple acquirers, transfer 3.0, and others) pose challenges to the profitability of businesses, and in some cases, require them to expand the range of services into more sophisticated products to seek complementarity and greater added value for the customer.

This creates a greater need for financing and investment vis-a-vis a complex situation due to the macroeconomic issues described above. For this reason, some companies in the FinTech industry are assessing the need to transform themselves into financial entities/companies to expand their product range, expand to other regions, provide a wallet “as a service” solutions or seek alliances, and even be bought out.

We must clarify that while the digitalization of payments grew significantly, there is still plenty of room for growth in Argentina. Today, about 70% of payments are made in cash as a result of several factors: Financial education and customs, tax burden, channel costs (with a downward trend due to payment market opening and transfers 3.0) and others. This allows us to conclude there is still plenty of room for growth in digital payments, provided that certain conditions are met in the local context.

Finally, while there is already an abundant supply in certain segments or verticals—mainly payments, cards, and digital wallets—there is still a large unbanked market and unmet demand for these services. There are also other less exploited verticals with considerable potential, such as Financial Management, Insurtech, Lending—not only for individuals but also for SMEs.

2

How to enter Argentina's FinTech Market?

Particularly in Argentina, there is a very important entrepreneurial spirit that has led to the incorporation of many companies to support the development of FinTech business. In addition, the alternatives for entering the market have evolved, and recent regulations now include FinTech companies, mainly payment service providers (PSPs).

With that in mind, there are different options for entering the Argentinian FinTech market that must be analyzed according to the vertical to be developed, the plan, and the strategy of each business. To begin with, before entering the Argentinian FinTech market or other lines of business, each entity must be registered as such with the Registry of Companies with a corporate purpose according to the activities in which it is to engage.

Argentina's corporate law provides corporate alternatives such as joint-stock companies (“SA”) limited liability companies (“SRL”) and simplified joint-stock companies (“SAS”). The Registry of Companies requires companies to fulfill certain periodic obligations, such as the submission of accounting statements.

¹⁹⁰ Please note that the acronym is in Spanish.

If, according to the business plan, a foreign company holds shares in the local company, said shareholding must be registered with the competent Registry of Companies. In the jurisdiction of the Autonomous City of Buenos Aires, foreign companies must report on their obligations every year. In this regard, the Registry requires companies to submit information concerning the investments they make in order to verify that the main activity is not carried out within the Republic of Argentina.

Once the legal entity has been established in Argentina and is operational, various rules will be applicable based on FinTech's corporate purpose (PSP, financial intermediaries, online loans, etc.). Therefore, a FinTech company that intends to operate in Argentina will have to take into account regulatory aspects. For example, FinTech companies interested in providing payment account or virtual wallet services must take into consideration the new regulatory framework (Communication "A" 6859 and 6885, as updated) which were already defined back in 2018 by the BCRA as those companies operating with a CVU (the virtual equivalent of the CBU). In addition, these FinTech companies must register with the BCRA as Payment Service Providers Offering Payment Accounts (PSPOCP¹⁹¹) and obtain their authorization to operate. This is a relatively simple process nowadays and does not entail a large number of requirements when compared to a bank or financial company license; however, it is also true that since this entity type and its regulations are constantly evolving, the number of requirements are expected to increase.

Furthermore, FinTech companies that intend to carry out digital banking activities or establish a digital bank (to engage in financial intermediation) must obtain a financial institution license, either by applying for it to the BCRA—which is a complex and time-consuming process (e.g., WiloBank, Brubank, and Open Bank)—or by acquiring a financial institution, subject to authorization from the BCRA (e.g., Banco del Sol owned by the Sancor Group). Moreover, FinTech companies engaged in Crowdfunding, which are considered collective financing platforms (as per General Resolution 717 issued by the National Securities Commission) must be administered by a joint-stock company, and must be registered with and authorized by the National Securities Commission (CNV¹⁹²) for their operation.

All FinTech companies that intend to operate must also take into account other regulatory aspects, such as the:

- ▶ Financial Information Unit ("UIF"¹⁹³) Regulations; the General Resolutions of the Federal Public Revenue Administration ("AFIP"¹⁹⁴); the Business Corporations Act - Law 19.550
- ▶ Corporate Criminal Liability Act - Law 27.401
- ▶ Personal Data Protection Act - Law 25.326 and its regulations
- ▶ Specific regulations of the Registry of Companies of the jurisdiction in which the FinTech company is incorporated; other Communications issued by the BCRA
- ▶ Consumer Defense Act - Law 24.240

Another widely used entry strategy, as in other countries, are partnerships with other established entities that can complement and accelerate market penetration, leveraging their licenses to operate and also their customer base and market reputation. One example of this is Nubi, which originated from an agreement between Paypal and Banco Comafi.

We must also mention that there has been a certain movement of acquisitions and mergers, which could accelerate in the future. One case is the recent acquisition of a company already established in the financial market named Ualá, a FinTech company that started the process of acquiring the digital bank Wilobank (pending approval by the BCRA) along with its banking license to operate in Argentina. In addition, many technology companies develop platforms and services for FinTech companies (FinTech as a Service, Banking as a Service, Open Banking, etc.) which open the way for alliances, and many of them even make international expansion of businesses possible. In the same sense, alliances between traditional or digital financial institutions or FinTechs with other actors in the business ecosystem (e.g., e-commerce, retailers,

¹⁹¹ Please note that the acronym is in Spanish.

¹⁹² Please note that the acronym is in Spanish.

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telecommunication companies, etc.) are taking place more often intending to explore new ways of generating services.

Therefore, we can conclude that there are various opportunities and various ways to enter the market—some riskier than others—and the best strategy will depend on the profile of each undertaking, its purpose, and its ambition.

3

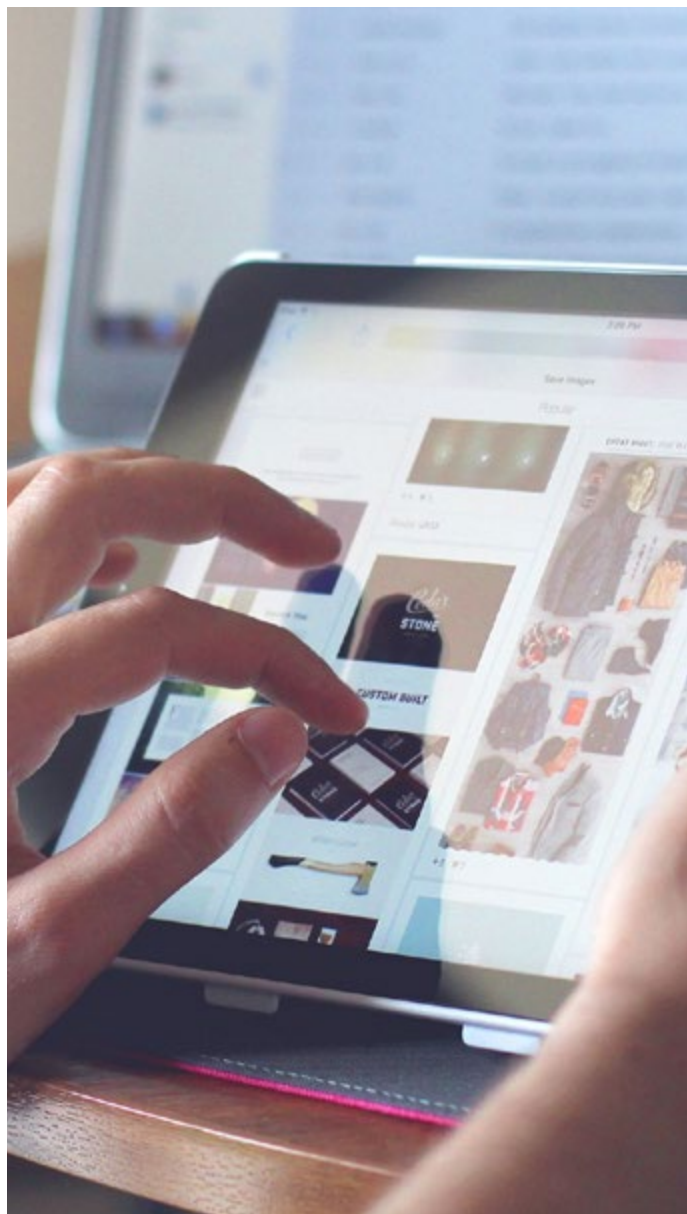
Market Trends

In particular, the year 2021 will be a year of transition in which companies will go hand in hand with the evolution of business in the context of the pandemic, capitalizing on the opportunity of digital adoption and expanding their service and customer bases, always taking care of ensuring growth and adjusting their strategy to the circumstances.

An increasingly important trend is Open Finance. Although it is not regulated, there is an increasingly integrated ecosystem that seeks to collaborate to deliver better services to customers in an agile manner. In Argentina, traditional entities collaborate with FinTech companies and vice versa, as well as with financial entities involved in Marketplace development.

For example, a FinTech company and bank alliance has taken place in the case of Mercado Pago by partnering with the BIND (Banco Industrial) to allow its users to invest in a common fund.

This financial services proposal is 100% digital, as users do not need to have a bank account to operate. They can start investing from USD 1 into a fund that will be available at any time when they need to use their account balance. The same product is also offered by UALÁ in partnership with an Asset Management company.



BIMO, an app created by Prisma in alliance with Clarín 365, is another example. The app allows users to add all their credit and debit card information on a single platform and detect which one gives the highest discount at the time of purchase.

In addition, existing financial market actors, such as public and private banks, have chosen to offer an enhanced digital experience of their payment products and processors through renewed mobile apps and/or other platforms such as virtual wallets. Some of the main ones are:

- ▶ **Modo** (+30 banks)
- ▶ **ANK, Superdigital** (Santander)
- ▶ **Pluspagos, Iudu** (Supervielle)
- ▶ **Viumi** (Banco Macro)
- ▶ **Al toque** (Patagonia)
- ▶ **Naranja X** (Galicia Group)
- ▶ **Nubi** (with Banco Comafi)

Another case that begins to gain relevance is that of Superdigital, a FinTech company owned by the Santander Group, currently operating in Brazil to make its way into the Argentinian market. Superdigital consists of a banking and social ecosystem to make payments to contacts through chats, as well as making online purchases and payments.

However, in the world of payments, there are other industries beyond financial services that are venturing into or deepening digital payment services, especially those that have a community of customers whose needs must be met. For example, Carrefour, Personal Pay, Wabi, BIMO, among others.

Concerning regulatory issues that influence market dynamics, we must particularly mention a BCRA regulation known as Transfer 3.0, issued on October 30, 2020, through

Communication "A" 7153, which began its progressive implementation on December 7, 2020, and seeks to boost digital payments, with the main purpose of reducing the use of cash.

The key features of this new system are the interoperability of payment methods, including QR codes and other payment validation and acceptance methods, generating greater competition in the ecosystem and immediate accreditation, and making use of the immediate transfer system, thus promoting greater competition and industry development.

Another regulatory aspect that continues to vest the market with dynamism today is the deregulation of the card acquisition and processing market since 2019. This opened up the market for multiple acquirers and processing entities, bringing about greater competition in traditional actors (such as Prisma and First Data, currently known as Fiserv) and the entry of new actors, with different maturity states, such as Global Processing, Worldpay, GetNet, and others.



Regulatory changes in Argentina are quite dynamic and give rise to new opportunities. Some regulations that are expected to make progress in the short or intermediate terms are Open Banking/Open Finance, customer data protection, and crypto assets.

The sector has an extraordinary potential to the extent that financial inclusion continues to evolve, standards are implemented by promoting industry development, and the country manages to overcome the pandemic and stabilize the macroeconomy.

4

Challenges for the Financial and FinTech Sectors

a. Challenges Posed by Current Regulations

Current regulations have an impact on FinTech companies linked to the payment service provider segment, and particularly on those that offer payment accounts. While regulations are somewhat limited concerning traditional banking, they imply that the activity becomes supervised by the BCRA and subject to the sanctions of the Financial Entities Act. They require registration in a registry administered by the BCRA and the submission of quarterly/annual information reports, and set out certain guidelines regarding the administration of third-party funds, which must be 100% available and in separate accounts of their own funds. This, along with certain operational changes, has somewhat modified the operations of the companies.

The BCRA, acting through CIMPRA¹⁹⁵ (Interbank Commission for Payment Methods) is working actively with the chambers of the sector to advance the implementation of Transfers 3.0 with a comprehensive vision. In this context, new regulations associated with the initiative and integration of the financial ecosystem are expected to emerge.

Moreover, the Financial Entities Act delegates to Banco Central the power to request information when it is suspected that an

individual or company is performing financial intermediation tasks and, if appropriate, to order the immediate and definitive cessation of said activities and the application of the corresponding sanctions.

b. Ideals of the FinTech Ecosystem Actors

Ecosystem actors seek to promote the activity of FinTech companies, driving the creation of new products and solutions, seeking to improve the level of financial inclusion in the country.

The goal is to provide greater insight about the users of the activity, achieve greater financial education, and allow for a more functional experience tailored to the needs and new demands arising in the context of technological change. Given new technologies and changes occurring in this context, ecosystem actors seek to collaborate to ensure that new regulations enable the growth and development of new technologies rather than reducing the spaces generated by the changing market.

Beyond the macroeconomic situation, the main expectations regarding the ecosystem contemplate having greater freedom in setting the prices of the activity, as well as generating rules that promote open banking/open finance.



¹⁹⁵ Please note that the acronym is in Spanish.

C. Regulations and Bills with an Impact on Financial and FinTech Businesses¹⁹⁶

► Payments with QR Codes:

The Transfers 3.0 program is a new BCRA regulation (Communication "A" 7153) that entered into force on December 7, 2020, with progressive development. In the first few weeks, the "open" payments with QR codes reached ARS 557 million. Transactions involve the main actors of this payment method, including Banco Nación (BNA+), Banco Provincia (DNI account), Postnet-Fiserv, and MercadoPago. Also, to ensure the stability of the system, the interoperable QR code began to be implemented in its initial phase with three chains (Burger King, Farmacity, and La Anónima) and 50,000 businesses.

The deadline for implementation to achieve full enforcement of the rules involved is November 29, 2021, where all QR readers will be required to receive payments from all electronic wallets, both from banks and FinTech companies.

► Crypto Assets:

In 2020, the bill for the regulation of crypto assets was presented. It seeks to create a comprehensive regulatory framework applicable to civil and commercial transactions and operations of crypto assets including the entire FinTech ecosystem, both between individuals (humans) and private or public legal entities, residents in the country or abroad. It applies to the provisions relating to the protection, monitoring, inspection, and control of such transactions and operations, as well as to all those involved in blockchain technology processes.

Also, in July of that year, the legislative path began to turn into law the proposal for workers to be able to decide to collect their salaries in different cryptocurrencies. The purpose of this Bill is to empower workers, as well as individuals who export services at a small scale, to receive their remunerations in cryptocurrency.

It aims to ensure that the salaries for knowledge economy jobs are not depreciated, facilitating payments in cases where work is carried out abroad, and facilitating the implementation of this technology without infringing the rights of workers.

► Card Issuers:

In January of this year, Section 447 bis was incorporated into the Tax Code of the Autonomous City of Buenos Aires, which provides that periodic settlements or summaries generated by credit or purchase card issuing entities for their submission to the holders thereof will be subject to stamp duty.

► Digital Payment Accounts:

There has been an increase in the use of digital means of payment through the so-called "payment accounts" managed by payment service providers (PSPs) and regulated by Communication "A" 6885 of the BCRA. These accounts were exempt from the tax on credits and debits in a bank and other operating accounts through Decree 485/2017.

However, to safeguard competition on equal footing, the Executive Branch considered it necessary to equate the tax treatment of transactions carried out through payment accounts with that of transfers made through the traditional banking system, which were and are levied with the tax.

Therefore, it ordered amendments to the tax on debits and credits through Decree 301/2021 to equate bank transfers with those made by digital means, except where individuals use payment accounts to favor the deployment of payment methods other than the use of cash. In this way, only transactions in payment accounts carried out by legal entities will be subject to the tax.

¹⁹⁶ Please note that the acronym is in Spanish.

5

Expansion of Argentinian FinTech Companies in the Region

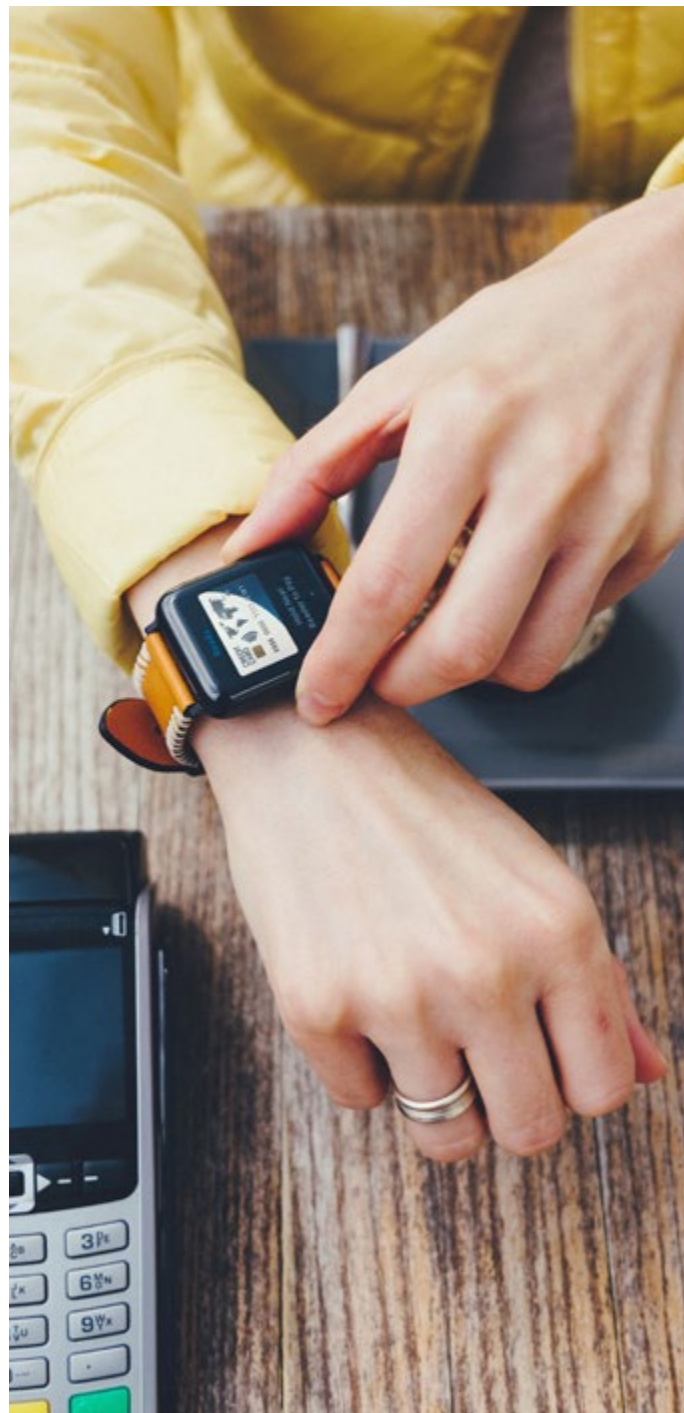
As for the expansion of companies in the Region, two types of companies can be differentiated.

On the one hand, those that provide direct services to consumers, except for the largest and well-established ones, and on the other, those with a more local market-oriented focus, either because of their strategy or to some extent due to funding limitations and the need to strengthen the local position.

In this regard, we can mention the cases of well-established companies such as Mercado Libre and its financial arm Mercado Pago, or growing companies such as UALÁ and Brubank, and some niche-based companies such as Afluenta, among others.

There are also companies experiencing great growth but whose initial strategy is local, because they are linked to institutions of the country's financial system (MODO, ValePEI, DNI Account, BNA+, Ank, Nubi, PlusPagos, BIMO, and others) where there is great competition for the payment market.

In addition, there are companies with a significant regional expansion based on the offering of services to financial services-related companies with different maturity levels such as Auth0, Technisys, VU, GeoPagos, Pagos365, N5, among others.





Colombia

1

Current Situation

Colombia continues growing in the development of the FinTech ecosystem, maintaining its position among the major developing countries of this ecosystem, after Brazil and Mexico. The country closed the first quarter of 2021 with an ecosystem growth of 26% encompassing over 320 companies classified in nine verticals as detailed below, which generate approximately 9,300 jobs. Approximately 67% of these companies are micro-businesses, 19% are small businesses, 8% are medium-sized businesses and 6% are large businesses.

The COVID-19 pandemic exponentially boosted this growth by mainly strengthening two segments: Digital Lending and Payments with a share of 35% and 30%, respectively.

The rise of these two segments has contributed positively to reducing the impact of the labor crisis caused by the pandemic, providing 3,000 jobs by the end of 2020. This growth is not only reflected in the number of companies in the ecosystem,

but also in the attraction of new capital, which for the first quarter of this year reached USD 48 million, as reported by Latam FinTech.

Furthermore, the traditional financial industry in Colombia is currently being strongly stirred due to the emergence of new Digital Banks and Neobanks that facilitate competition for these new types of entities. As of today, there are several entities in operation such as NEQUI, DAVIPLATA, Linero and others soon to be launched to the market such as LULO Bank and NU (NUBANK).

a. How to do FinTech business in Colombia?

The growth of this type of business, which has even been maintained in times of the COVID-19 pandemic, shows that FinTech companies in Colombia are a good investment opportunity. In addition to this sector's robustness and sustained growth, it is enriched by the nine verticals that it comprises (Digital Loans; Digital Payments; Corporate Finance; Personal Finance Management & Wealthtech (PFM); Regtech; Crypto Assets and Blockchain; Crowdfunding; Insurtech and Neobanks). Considering that Colombia is a country with a high unbanked population rate, FinTech companies have played a significant role in increasing financial inclusion in this country, addressing the needs of low-income citizens for access to finance. In turn, this has had positive social impacts.

The start-up of a FinTech company in Colombia will depend on the type of service it offers since some are subject to the supervision of the Colombian Financial Superintendency (SFC¹⁹⁷). In case of being subject to the supervision of the Superintendency, the entity's entry into operation can take approximately one year (or even longer) due to the procedures to be carried out with the SFC and any additional request for information and/or clarification.

b. Regulatory Framework

Although some progress has been made in terms of regulations, FinTech companies and even their spokespersons claim a lack of differential regulation, as well as a lack of regulation for some of the verticals in this ecosystem, which they regard as an obstacle since it represents a legal gap that triggers uncertainty for each of the parties involved, including consumers themselves. Significant progress has been achieved in areas such as:

- ▶ State subsidies and support for FinTech undertakings.

- ▶ Definition of a Sandbox (cf. Law 1955 of 2019 and Decree 1234 of 2020) as mentioned above, for the carrying out of tests for FinTech companies.

- ▶ The adoption of regulations such as Decree 1692 of 2020, which requires the entire financial sector to provide different types of companies with access to low-value payment systems, thereby facilitating the development of the payment market.

- ▶ In addition, the government—committed to the modernization of the State and its procedures—is launching a new digital identification model for people, a digital identity card, and a repository of basic documents and data of individuals known as a “citizen file.”

In the face of this new regulatory and market panorama, some banks have decided to:

- ▶ Make their main financial services available to said companies by sharing public-use APIs.
- ▶ Deliver immediate mobile-to-mobile transfer services through their low-value payment networks. This service opens the way for carrying out financial transactions and building a user directory that relates users' accounts to their mobile phone numbers.

c. Distribution of the FinTech market in Colombia

The FinTech market is currently offering the following specialties according to local needs:

- ▶ Payment systems that include payment gateways and buttons, such as PAYU and Tpagu.

- ▶ Ecosystems that associate surplus customers with money-deficit customers for both individuals and legal entities, generating money flows between them, e.g., Kredicity, Zinobe, Addi, and Criptopi.

- ▶ Value-added systems for financial customers, e.g., Tanqui.

In addition to the foregoing, based on their geographic location, the largest number of FinTech companies are headquartered in the country's capital city, Bogota D.C., followed by the Department of Antioquia, which includes the city of Medellin and nearby municipalities. For its part, the Department of Valle del Cauca is the third largest host of FinTech companies in the country. The rest of FinTech companies are distributed in intermediate cities in other regions of the country.

¹⁹⁷ Please note that the acronym is in Spanish.

d Challenges to the Future of FinTech Companies in Colombia

Despite the progress made, there is still a long way to go for FinTech companies to have easier access to the market and facilitate innovation. To reach this goal, the following actions are necessary:

- ▶ Updating legal regulations to support legal processes arising from digital contracts and services.
- ▶ Encouraging financial institutions to participate in this ecosystem by appifying their products and services so that FinTech companies can continue to increase the portfolio of value-added services.
- ▶ Define application standards in matters such as security, messaging, etc. to facilitate the entry of new competitors to the Colombian market.

In Colombia, companies that are part of the FinTech ecosystem are classified into the following nine segments or verticals, which are listed from the one with the highest percentage of participants in the Colombian market to the one that currently has a lower percentage of representation:

▶ Digital Lending:

This segment, which seeks to grant digital loans to both individuals and legal entities, accounts for approximately 30.43% of actors in the Colombian FinTech industry, being the one with the greatest representation in the country.

▶ Digital Payments:

Companies offering digital wallet services, digital correspondent networks, remittances, payment gateways, and companies specializing in electronic deposits and payments (SEDPE) are second in the country with a 26.40% share in the national market.

▶ Business Finance:

This vertical has 13.04% of market participants and includes those companies that offer electronic billing technology services, factoring and confirming trading systems, third-party payment services, and online portfolio management.

▶ Personal Finance Management & WealthTech (PFM):

This segment includes financial planning and education companies, as well as business or investment platforms, with a market share of 9.63%.

▶ Regtech:

With a share of 7.45 %, this industry vertical ranks fifth in the market. These are companies that provide front-office services such as fraud and digital identity checks, middle-office with financial aggregator services, alternative scoring, and risk and compliance management.



► **Crypto Assets and Blockchain:**

Companies that offer crypto asset exchange platform services, virtual assets such as payment methods, tokens, securities and goods, smart contract development services, and blockchain as a service for financial services represent approximately 5% of the domestic market. It is worth mentioning that the Cryptocurrency sector in Colombia is not far behind. Although there are no specific regulations for this sector, the SFC announced the nine ideas that were selected to start the crypto asset pilot in a sandbox enabled for operations of this kind, through which entities such as Banco de Bogota, Bancolombia, Davivienda, Powwi, Coink and Movii, and others will carry out transaction projects to and from the cryptocurrency ecosystem and using selected exchange platforms such as Buda, Panda, and Gemini.

► **Crowdfunding:**

The crowdfunding sector represents 3.73% of market actors and can be carried out by way of donation, equity or investment.

► **Insurtech:**

With 3.42% of actors in the FinTech ecosystem, this vertical ranks second to last. It includes insurance buyers, digital brokers, group insurance, and insurance wallet apps.

► **Neobanks¹⁹⁸:**

Digital banks—also known as neobanks—rank last, with a 1.24% share in the ecosystem.



¹⁹⁸ Colombia FinTech, Fintank Sectoral Report, 2020.



Chile

1

Current Situation

a. Market Trends

1. Payment Methods

- Increased payments by card, 38.4% in volume, and 9.6% in amount (April 2020).
- Approximately 21.6 million debit cards, 17.1 million credit cards, and 2.5 million prepaid cards.

2. Access to Banking Services

Chile is the country with the highest level of access to banking services in Latin America, with 74.3% of its population making active use thereof, and a total of 12,400,000 credit cards currently in use.

b. Main Highlights of the 2020 FinTech Chile Study¹⁹⁹

- Most FinTech companies are formally valued at a price ranging from USD 1 million to USD 10 million.
- 93% of FinTech companies plan to expand and tend to choose Latin American countries, and 45% of them choose Mexico as their priority. Peru, for its part, is positioned as one of its 3 top priorities with 37%.
- 70% of FinTech companies expect revenue growth of over 30% by 2020.
- 45% of FinTech companies operate on a business-to-business (B2B) model; that is, from companies to companies, due to the prevalence of FinTech companies related to payment methods. Transaction percentage remains the primary revenue model (compared to the 2019 survey).
- The number of customers has more than doubled in recent years.
- The services offered by FinTech companies are primarily divided into payment and transfer solutions (16%) business finance management (17%) and other technology platforms.
- Depending on the type of FinTech, open banking is the priority area of regulation, followed by cybersecurity and data ownership and privacy.

¹⁹⁹ EY Chile, Association of FinTech Companies of Chile (FinteChile); Study to gather information about the development of the FinTech industry; 2020.

- ▶ Tax incentives for both investors and FinTech companies are the most effective initiative, followed by regulatory agreements with other countries.
- ▶ 85% consider the government mandate for open data protocols to be “effective” and “very effective.”
- ▶ The social crisis posed problems for FinTech companies with capital needs and made interaction with public institutions more difficult.
- ▶ 50% or more of FinTech companies have seen their number of customers, revenues, and transactions grow.

2021 Highlights:

In 2021, there has been a major boom and rise in Venture Capital, which has been materialized with capital increases for different Startups, Insurtechs and FinTechs.

c. FinTech Capital Raising:

Here are some examples based on public information:

Global66:

since 2018, it has raised

USD20 million,

USD 12 million of which correspond to the 2021 period.

Xepelin:

since 2019, it has raised more than

USD286 million

between capital and asset-backed facilities.

Redcapital:

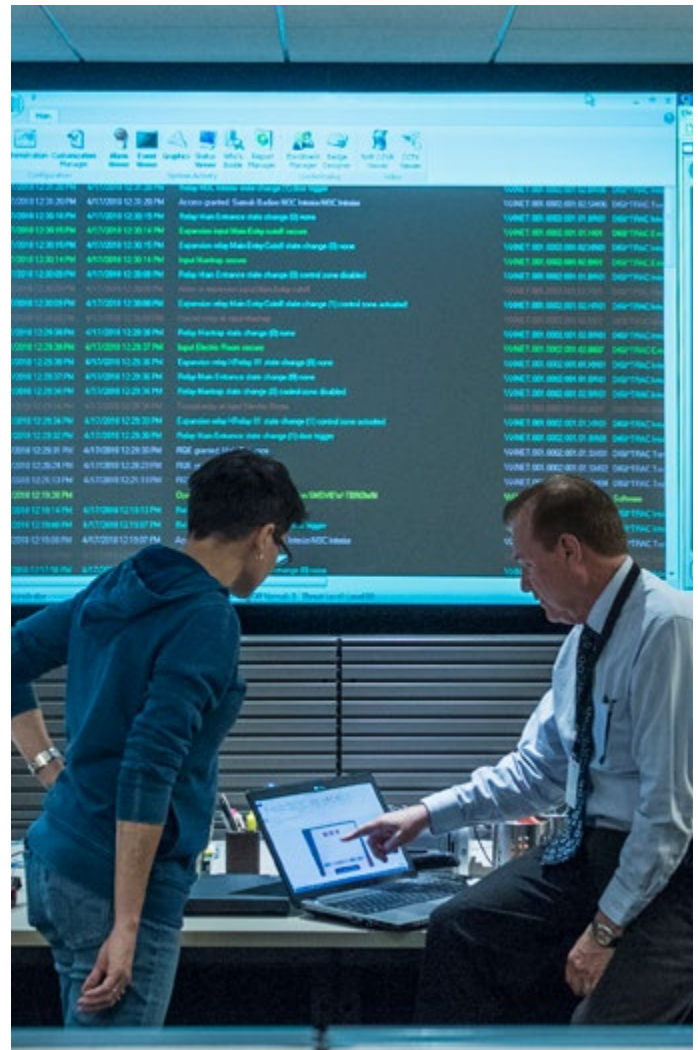
USD2 million

in 2019.

Quansa:

USD3,6 million

in July 2021 in the seed funding round.



d. Main Economic Indicators

► Monthly Economic Activity Index (IMACEC):

Last year's IMACEC has grown from -13.6 to 20.1 in June 2021, showing an upturn of the Chilean economy in the first half of the year in the areas of production of goods, consumption, and services. This indicator shows the evolution of global economic activity over 12 months, which is also calculated in seasonally adjusted and trend terms, constituting a supplementary indicator to the quarterly Gross Domestic Product (GDP) which is adjusted after the end of the quarter.

► Financial Stability Report (IEF²⁰⁰):

The IEF published in May 2021 by the Banco Central de Chile highlights that companies have experienced recovery in their sales, keeping their delinquency low and stable, as a result of the wide deployment of mitigation policies, a better external and internal scenario, and the adaptation of the agents to the current context. Since the last report, corporate debt fell to 125% of the GDP by the end of 2020 due to a decreased lending dynamism, mainly due to lower demand and improved activity.

► Banking Sector Profitability:

The May 2021 weighted average Cash Operations Report (ROE²⁰¹) of the bank sample was 17.3% compared to 17.2% in May, 17.0% in April, 17.3% in March, 17.4% in February, and 17.5% weighted average in January 2021.

► Projected Growth:

According to the Monetary Policy Report (IPoM²⁰²) delivered by Banco Central de Chile in June 2021, the growth projection of the Chilean economy rose between 8.5% and 9.5%. In addition, as reported by the said entity, average inflation would be 3.9% in 2021 and 3.8% in 2022.

2

Regulation

► Financial Portability Act:

Effective as of June 2020, it aims to promote and allow individuals, micro- and small-sized businesses to switch from one financial service provider to another, or to switch from one financial product or service to another with the same provider.

► FinTech Bill:

Effective as of June 2020, it aims to promote financial portability, making it easier for individuals, micro- and small-sized businesses to switch from one financial service provider to another, or to switch from one financial product or service to another with the same provider.

It is a set of business models that has gained increasing relevance hand in hand with the progress in technology applied to the financial market, but which operates without specific financial regulation. This has limited its development and opened up the way for potential risks to users.

The bill also incorporates an update of part of the legislation in force on other matters of the securities market under the responsibility of the Financial Market Commission (CMF²⁰³) to adapt it and preserve regulatory coherence among new FinTech actors and the actors operating today under the regulation and supervision of the CMF.

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► **Bill to Update the Personal Data Protection Act:**

This bill seeks to update the Privacy Protection Act of 1999 to reflect the demands of modern times and to create the Personal Data Protection Agency through Bulletin 11144-07. The bill aims to modernize the legal regime for data protection, as contained in the current Law 19.628, by regulating aspects such as new technologies in the collection and dissemination of personal data. It also proposes to comply with the recommendations on the matter issued by the Organization for Economic Cooperation and Development (OECD) of which Chile has been a member since 2010.

► **Prepayment Act:**

Law 20.590 was published on October 29, 2016, authorizing the issuance and operation of payment methods with the provision of funds or any other similar system (the “Prepaid Cards”) by non-bank companies, which involve the issuer or operator usually undertaking money obligations to the general public or specific sectors or groups of the issuer or operator. This enhances the financial inclusion of lower-income sectors of the population by promoting and facilitating their access to electronic payment methods.

► **Open banking:**

Currently, open banking is not regulated in Chile.

► **National Cybersecurity Policy (PNCS²⁰⁴):**

Effective as of 2017, it establishes a general framework that encompasses all cybersecurity strategies and mechanisms. This policy provides that by 2022 the country will have a robust information infrastructure prepared to deal with cybersecurity incidents; that the State will secure the rights of people in cyberspace; that a culture of cybersecurity will be developed around education; that cooperative relations will be established with international actors; and that the development of a cyber security industry will be promoted.

► **Exchange Rates Act:**

Effective as of August 6, 2021, it seeks to promote competition in the card payment industry through the establishment of

fee ceilings between brands and industry actors. The new regulation states that the payment obligations of exchange rates for domestic card payment transactions between operators and payment card issuers shall be subject to the ceilings to be defined by a technical committee.

This technical committee will consist of four (4) persons, each appointed by the Banco Central de Chile, the CMF, the National Economic Prosecutor’s Office (FNE²⁰⁵) and the Ministry of Finance.

► **Funds Bill:**

It proposes the establishment of a fund to boost the venture capital industry in Chile. Thus, the government, acting by and through the Ministry of Economy and Finance (MEF) with the support of the Association of Entrepreneurs of Chile (Asech²⁰⁶) is currently developing a bill that includes pension funds as investors that can provide funding for supporting startups and SMEs with innovative and competitive characteristics. Another important investor for this fund would be the State through the Chilean Economic Development Agency (CORFO²⁰⁷) making capital contributions instead of debt, as they contribute approximately USD 80 million in risk capital lines per year. In addition, other investors and investment funds, both local and foreign, would be sought.

Without prejudice to the bill currently under discussion, there is no specific regulation for FinTech companies in Chile up to date. Therefore, there are no requirements or prohibitions for the arrival or creation of FinTech companies in Chile and, on the contrary, there are ample facilities for the swift and smooth incorporation of new companies such as “your company in a day.”

²⁰⁴ Please note that the acronym is in Spanish.

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In this regard, it is relevant to point out the existence of regulations for the financial industry to which FinTech companies can voluntarily adhere to ensure greater trust from the public, investors, and regulators:

► **General Banking Act (LGB²⁰⁸):**

It regulates the incorporation and operation of banking entities and other financial institutions.

► **Single Fund Act (LUF²⁰⁹):**

Law 20.712 regulates the incorporation and operation of third-party resource managers through Mutual Funds, Investment Funds, and Third-Party Portfolios.

► **Insurance Act (Decree with Force of Law [DLF] 251):**

Insurance brokers must be registered with the CMF, both in the Register of Insurance Brokers for legal entities and the Register of Insurance Brokers for individuals.



3

Miscellaneous

a. Insurtech

Betterfly: It has a commercial alliance with Caja Los Andes. Banco Security is the entity that provides insurance.

b. Some Independent FinTech Companies from Traditional Actors

- **Fintual:** General fund management company.
- **Buda.com:** Cryptocurrency trader.
- **Destácame:** Personal finance.
- **Redelcom:** POS distribution.
- **Xepelin:** Dedicated to SME financing.

Details of other independent FinTech companies can be found on the following website: Members (fintechile.org)

c. Emergence of FinTech Companies with the Support of Banks

- **Mach (Banco Bci):** 3 million users.
- **Clever (Banco BICE).**
- **Tenpo (Credicorp).**
- **Superdigital (Banco Santander).**

²⁰⁸ Please note that the acronym is in Spanish.

²⁰⁹ Please note that the acronym is in Spanish.

Panama and Central America

1

Current Situation

Very similar to the whole region, Central America does not escape the health crisis generated by COVID-19, which marked the whole of 2020 and so far in 2021. This crisis has set multiple trends in the financial sector, transforming work methods, accelerating digitization processes, the massification of financial consumer digital behaviors (including the growth of delivery applications, increased interbank transactions, reduced cash and check use) as well as changes in all sectors from SMEs to large corporations.

Lastly, the crisis has had an impact on the growth of credit activity and in most Central American countries it has been less than 1% compared to previous years.

In addition, advances in financial inclusion have been accelerated due to laws for simplified procedures regarding accounts in various Central American countries, where

customers can open an account through channels such as online banking or mobile banking, thus stimulating greater efforts by financial institutions to provide a 100% digital experience. The foregoing also seeks to take advantage of the substantial raise in transactions / electronic commerce that in cases like Panama reached an increase of 40% in the number of electronic transactions, more than 60% in the Dominican Republic, 69% in Honduras, and 72% in Nicaragua concerning the pre-pandemic phase.

Increase in the Number of Transactions / E-commerce

Panama	Dominican Republic	Honduras	Nicaragua
40%	60%	69%	72%

Furthermore, leveraging this contact with customers, banks are now offering various financial products such as contactless debit cards, virtual cards for purchases in electronic commerce, and the possibility of making withdrawals at ATMs without a card. In addition, FinTech companies have particularly incorporated different use cases mainly aimed at digital payment methods (QR codes, payment links, payment buttons, e-commerce, and Soft POS) handling of digital remittances (mainly Guatemala, Honduras, El Salvador, and the Dominican Republic) as well as microlending and factoring, all using

biometrics to improve user experience and authentication security.

These and other use cases have been driven by three sources, which are:

- **Banking system**

- **Support of ecosystems among local companies / FinTech companies and banks**

- **Foreign capital FinTech companies in search of regional positioning**

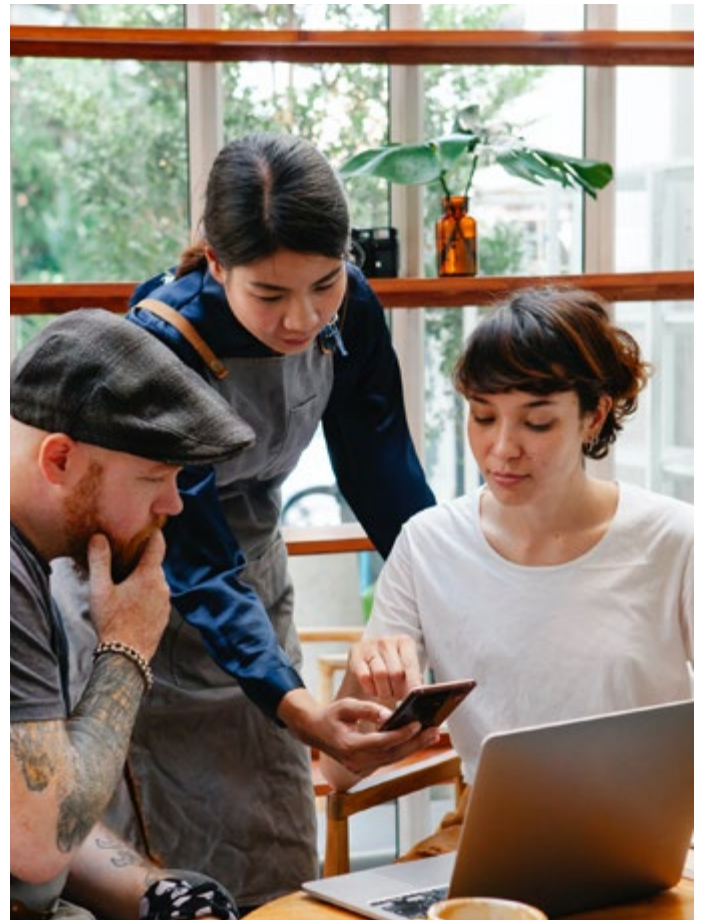
2

FinTech Initiatives

The legal way to implement these initiatives, regardless of particular laws for FinTech or Open Banking, is through regulatory criteria for banking and non-banking financial institutions leveraged by the trade code, among other traditional regulations. In addition, the different local and traditional FinTech companies have had local, regional, and Capital Ventures funding sources.

The regulatory aspect and access to financing are part of the important challenges FinTech companies are facing. Additionally, many FinTech companies were conceptualized for a specific ecosystem, which makes it difficult to migrate or participate in other markets.

It should also be mentioned that the effects of the pandemic, while accelerating the digital transformation to a certain extent, slowed down some processes and progress made concerning different regulations in Central America aimed at modernizing the payment system, expanding the financial ecosystem to FinTech companies, and driving Open Banking strategies. However, we will mention some initiatives that have achieved the most results:



3

Approval of the “Bitcoin Act” in El Salvador:

The Bitcoin Act was passed in the Legislative Assembly of El Salvador on Tuesday, June 8, 2021. The main initiative of this new law is to make the bitcoin cryptocurrency the legal tender in the country.

Other measures implemented by the Bitcoin Act include the following:

- Taxes in El Salvador may be paid with bitcoins.
- The profit from the sale of bitcoins will not be taxed with the capital gains tax.
- Any price may be expressed in bitcoins.
- All economic agents in El Salvador must accept bitcoin as a means of payment when offered to them by the person who purchases goods or services.
- The Salvadoran State will promote the use of bitcoin by providing alternatives that allow users to conduct transactions with the above-mentioned cryptocurrency. To this end, it will give users the possibility to automatically convert bitcoins to U.S. Dollars, as well as training and other mechanisms.

The Bitcoin Act intends to incorporate the largest number of people into the financial system, considering that about 70% of the Salvadoran population is not banked. The adoption of bitcoin in El Salvador is also considered to contribute to the continuity and growth of remittances from abroad, due to the ease and speed of sending funds internationally using bitcoins for this purpose. For all of the above, the government plans to issue its own digital wallet called “Chivo Wallet” to facilitate use, which will accept balances in bitcoins and U.S. Dollars.

The adoption of the Bitcoin Act seeks to attract foreign investment that is committed to the growth of the Central American country based on the use of bitcoin as legal tender. The Salvadoran government has declared to be in favor of promoting measures that attract capital and talent to the country, such as providing permanent residency benefits.

However, despite the wave of enthusiasm brought about by the approval of bitcoin as legal tender for the cryptocurrency investor community, the International Monetary Fund (IMF) and the World Bank have spoken out against the measures proposed by El Salvador, pointing out the potential macroeconomic and legal risks that the Bitcoin Act would generate.

At the technological level, as at the global level, the facilities provided by cloud technology processing, end-to-end process automation, advanced data analytics, and the intensive use of mobile applications have been the foundation of this digital transformation process for both the banking and FinTech industries, as well as the increasingly common use of new and agile working methodologies that allow for reducing the time of new financial products and services to market.

Progress

The Bill for a digital government act in Panama, which, although not being directly related to the financial aspect, will be an important step towards a digital ecosystem.



Ecuador

1

Current Situation

The COVID-19 pandemic has accelerated the Digital Transformation process for the financial industry in Ecuador, as certain advances that could have taken some 3-5 years to reach the country are already underway; however, it is still a slow transformation when compared to what is happening in other countries.

One of the consequences of the COVID-19 pandemic is a slight reduction in cash use, which has popularized the use of digital payment applications especially from existing financial institutions (mobile banking applications). In addition, there has been an increase in home delivery purchases leveraging on the payment system to which apps for this purpose are being used (UberEats, Rappi) but there are also several businesses that only use external courier service and channel their charges and payments through services such as Kushki's.

All of this is changing the purchasing habits and behavior of a new generation, bringing Ecuador closer to the financial models observed in the Region that facilitate the conditions for the growth and spread of new companies in the FinTech environment.

a. Leading Segments in the FinTech Market

- Early adoption of digital payment models by many companies during the COVID-19 pandemic has been observed, as they have chosen to offer their services through digital channels, home deliveries have become popular, and the use of payments through services such as Kushki and Payphone has increased, which has given these businesses autonomy for creating specialized e-commerce sites or partnering with banks.
- The implementation of Wallet has brought about interoperability experiences of banks and commercial groups in Colombia, Peru, and Argentina.
- Much like digital payments, mobile devices such as cell phones or tablets have become the new transaction channels with the use of digital wallet applications. This expands the options for transactions to the banked and unbanked Ecuadorian citizens, with services such as those provided by BIMO or BICOO.
- Accounting Services.

Main Challenges:

- ▶ Slow negotiation processes can take six (6) to seven (7) months depending on the line of business.
- ▶ This dependence on third-party interactions creates a deficiency in integrating services into the banking cores of some financial institutions.
- ▶ The cyber-attacks suffered by some banks have revealed the need to strengthen cybersecurity in institutions.
- ▶ When customers perceive security controls as friction to app usage, there is a need to create a balance between cybersecurity and user experience (UX).

b. Companies that have Alternative Regulations to Enter the Market

In the Ecuadorian market, FinTech companies are supervised by the Banco Central del Ecuador (BCE²¹⁰) and must comply with a series of regulations in order to be able to provide their services. In this article, we provide a summary of the regulatory framework that applies to FinTech companies.

Specifically, the Monetary and Financial Policy and Regulation Board issued Resolution 382-2017-F, which sets out the definition and rating guidelines and the acts comprised by the operations carried out by auxiliary services entities in the public and private financial sectors—a category where FinTech companies regulated by financial sector entities can be placed. At present, the Organic Monetary and Financial Code has established some articles about auxiliary services entities of the national financial system, the most relevant ones being the following:

Regulation of auxiliary payment systems: The scope of the services and regulation that FinTech companies will have in the country are defined and established, and are categorized as auxiliary payment services, including the categorization of the types of service that are authorized (for example, banking

software, transactional services, transportation of monetary species, payment gateways and collections, among others).

It is also specifically stipulated that corporate control over auxiliary payment services entities will be exercised by the Superintendency of Companies, Securities and Insurance, and the Superintendency of Popular and Solidary Economy, as the case may be.

In addition, it should be noted that the Ecuadorian Superintendency of Banks and the Superintendency of Popular and Solidary Economy have issued provisions regulating the rating and supervision of auxiliary service companies that provide services to entities in the public and/or private financial sectors, and of credit reporting bureaus according to each of their jurisdictions.



²¹⁰ Please note that the acronym is in Spanish.

Procedure for Start-up a FinTech Company

As can be seen, there are several regulations and supervisory bodies involved in the starting of a FinTech company in Ecuador. Below, we provide a summary of the procedures to be followed:

1. The first step a FinTech company must take in Ecuador is to be legally incorporated under the regulations of the Superintendency of Companies, Securities, and Insurance.
2. Subsequently, the company must request the respective operating authorization from the Superintendency of Banks or the Superintendency of Popular and Solidarity Economy, depending on the market of the financial sector in which it intends to provide the service, and if the service contemplates interacting with companies of both sectors, it must seek authorization from both superintendencies.
3. The following step is to manage the authorization with the BCE, as the regulatory body for auxiliary payment services (APS) in Ecuador, where the BCE sets forth a series of requirements and documents for their validation, such as authorizations of related superintendencies, policies, risk, and information security procedures and methodologies, business continuity plan, operational manual of services (business model) etc. It should be noted that the BCE conducts regular and random controls and inspections to ensure that APS companies adhere to the regulations.

To execute this review, the BCE will issue an administrative resolution notifying the APS company of the inspection and requesting it to have in place, in addition to fulfilling the requirements stipulated above, principles and guidelines for Corporate Governance, Risk Management (Credit, Liquidity, Liquidation, Operational Risk and Access Management).

c. FinTech Bill

Recently, the “Organic Reform Bill to Various Laws for the Development, Regulation, and Control of Financial Technological Services” (FinTech Act) has been filed before the National Assembly of Ecuador. This bill proposes the regulatory framework to finish establishing the business regime, through important additions to the Organic Monetary and Financial Code, which contemplates:

- Definitions of Financial Technology Entities, Securities Market Technology Services, and Insurance Technology Services.
-
- It also intends to determine the following points in connection with each of these types of technology entities or services:
 - Nature of the services
 - Equity participation
 - Rating of companies
 - Regulation of operations
 - Investment prohibitions
 - Control of entities
 - Regulatory testing environment (regulatory sandboxes)
 - Contributions to the financial system (through the Superintendency of Popular and Solidarity Economy, or the Superintendency of Companies)
-

In conclusion, we can see how Ecuador, acting through the Monetary and Financial Policy and Regulation Board, the Superintendency of Banks, and Banco Central del Ecuador establishes the regulatory and control framework for auxiliary payment service companies. As expressed by the Superintendency of Banks, the proposed reforms seek integration to promote financial inclusion, offering incentives for entities controlled by the Superintendency of Banks to expand the use of interoperability, channels, new products, development of innovative FinTech companies, all of which will reduce costs for banking system users, as well as protect them and educate them financially.

d. Main Technologies Used

- Technologies that enable operational efficiency:
 - Robotic Process Automation (RPA)
 - Artificial intelligence and machine learning
 - Data Analytics
 - APIs use (preparation for open banking)
 - Document management
 - Payment gateways
- Cybersecurity services that can immediately address the current and future requirements of financial institutions and FinTech companies.



2

Response of Traditional Financial Institutions to FinTech Companies

Local banks are prevalent in the current FinTech ecosystem in Ecuador, which allows them to manage the ecosystem, and such ventures have emerged despite the lack of FinTech regulations. Furthermore, the FinTech sector has taken off recently as a result of the pandemic, and the emergence of these initiatives could have been delayed by an additional 3 to 5 years had this event not occurred on an international scale.

Some of the initiatives born in Ecuador's FinTech sector are the management of Electronic Wallets or Mobile Wallets, which originally would be administered by the State; however, in the absence of such centralized management, several private institutions launched their apps for this very purpose, such as De Una by Banco Pichincha; PayPhone by ProduBanco; BIMO, which is a service operated by BANRED; and BICOO, which is an initiative launched by Savings and Credit Unions.

With a growing presence of several such applications, we are facing the challenge of incorporating unbanked individuals into the banking system, which is still a large percentage of the active economic population (about 48%). At the same time, consideration should be given to integration with other systems outside the country, allowing citizens to interact with external payment and collection systems, opening the possibilities of trade within and outside the country.

As for payment gateways, services such as Kushki and PayPhone are already well-positioned in the market, since they accept various types of cards and are experiencing an exponential growth in the number of users and transactions made.

In turn, institutions like Banco del Pacífico are taking their first steps in building an API ecosystem, in search of putting into practice already established Open Banking concepts. These APIs are intended to allow payment and collection options to third parties, generating transactions in the provision of their services to ensure transparency to users.



3

New Developments and Future Challenges for the Financial and FinTech Sector in Ecuador

a. Regulatory Sandbox

Considering that there is a strong customer defense culture, which is one of the strengths of the financial system, and that generating changes in current regulations takes time, it is important to implement a regulatory “sandbox” in Ecuador that allows for the alignment of efforts between the regulatory, public and private sectors for digital transformation.

This will open the way for communication between the government and private companies, enabling them to draw on experiences in other countries in terms of regulations and to establish an intermediate- and long-term vision for entering the FinTech, Open Banking, and cybersecurity market.

b. Public Policies and Initiatives in the Financial and FinTech Ecosystem

- It is important to use existing capabilities in financial and FinTech ecosystem organizations to create alliances that represent a competitive advantage that responds to and meets the needs of the country.
- There is also an ever-growing need to create digital and financial literacy campaigns that explain to customers how each part of the digital financial ecosystem works. Therefore, it is a prudent choice to work on people's financial and digital culture as part of a joint effort undertaken by the government, private banking entities, and the developing FinTech ecosystem, to build greater trust in the financial system.
- Another prudent choice would be to create a balance between User Experience and Cybersecurity to support customer transaction traceability.
- Similarly, implementing services through BCE aimed at improving the immediacy of foreign exchange so that it can be real-time will generate greater trust in the ecosystem, bearing in mind that more than 50% of people are not bank users.
- Finally, proposals that speed up simple digital money transfers and allow customers to do so without having a bank account and only with the cellphone number could also be evaluated, ensuring full traceability of each transfer. Such an action could be implemented by the BCE as a key action in the dynamization of the economy.

Kushki

USD 86 million in equity funds
in a regional investment round.

4

Internationalization and/or Expansion of FinTech Companies from Ecuador to Other Markets

Technology Innovation Managers consider that it is the market that sets the pace of the magnitude of FinTech requirements, which is why it is convenient to create good payment and collection ecosystems among the market and the different initiatives of each bank. Examples of this ecosystem are:

- **Kushki:** It has prepared an API dictionary to easily connect to third parties and use their services, in addition to having become one of the most important payment platforms in the Region, it has secured USD 86 million of equity funds in a regional investment round last June. This will allow it to expand its online payment service throughout Latin America.
- **PayPhone:** Established as a real-time, online collection and payment platform, it was conceived with the idea of performing these transactions with just a smartphone, focused on facilitating this interaction between individuals and commercial establishments. It is currently experiencing growth in the number of users in five countries, in "PayPhone Persons" as well as "Payphone Business", and plans to establish more alliances with entities in Central America to continue its expansion, which at the moment means over 100,000 transactions per month.



Uruguay

1

Current Situation

Uruguay is not alien to global trends. The exponential technological development that has occurred over the past few years, along with the emergence of new technologies and business models, is creating challenges and opportunities in the financial service industry in Uruguay.

The COVID-19 health crisis, which in Uruguay began on March 13, 2020, has forced banks to speed up the digitization process given the mobility restriction measures announced during this period. Some financial institutions have turned to FinTech for support to address fast-response challenges, leveraging on the strengths of digital channels to deliver better offers to their customers. The vast majority of digital companies profited from the situation because customers needed more interaction with digital payment mechanisms, and those who provided them or who helped avoid in-person transactions benefited from this.

Currently, Uruguay is at a very good level of development in the FinTech industry in Latin America. The greatest milestone in the country's economic and business history was in June 2021, with the listing of dLocal, the first Uruguayan unicorn, on the New York Stock Exchange (NYSE).

Also, Uruguay has the Uruguayan FinTech Chamber (hereinafter, CUF) a partnership that groups companies and startups in the financial ecosystem. This partnership emerged in 2017 to boost the atmosphere of those companies working in the financial sector and thus encourage their growth.

Uruguay

CUF²¹¹

Uruguayan FinTech Chamber (hereinafter CUF) a partnership that groups companies and startups in the financial ecosystem.

There is no Registry of FinTech Companies in Uruguay; however, the CUF currently has 48 members, a number that is understood to be representative since it has a fairly inclusive profile in the sense that there are no invoicing or company size requirements to be a member thereof.

²¹¹ Please note that the acronym is in Spanish.

Considering this universe in Uruguay, there are currently 60% of companies called “Factories,” which are sort of software “farms.” The remaining 40% are product development companies. It is also important to point out that 25% of these companies are in a series A investment round.

There are 39% of companies whose business model is in an initial validation of the business model, product, and/or customers, among others. Out of this percentage, 20% of the members of the chamber have national validation and 41% have international validation. This fact shows that many of the Uruguayan FinTech companies have managed to scale their business in the Region, perhaps driven by the growth impediments they would face if they were only to remain in the domestic market.

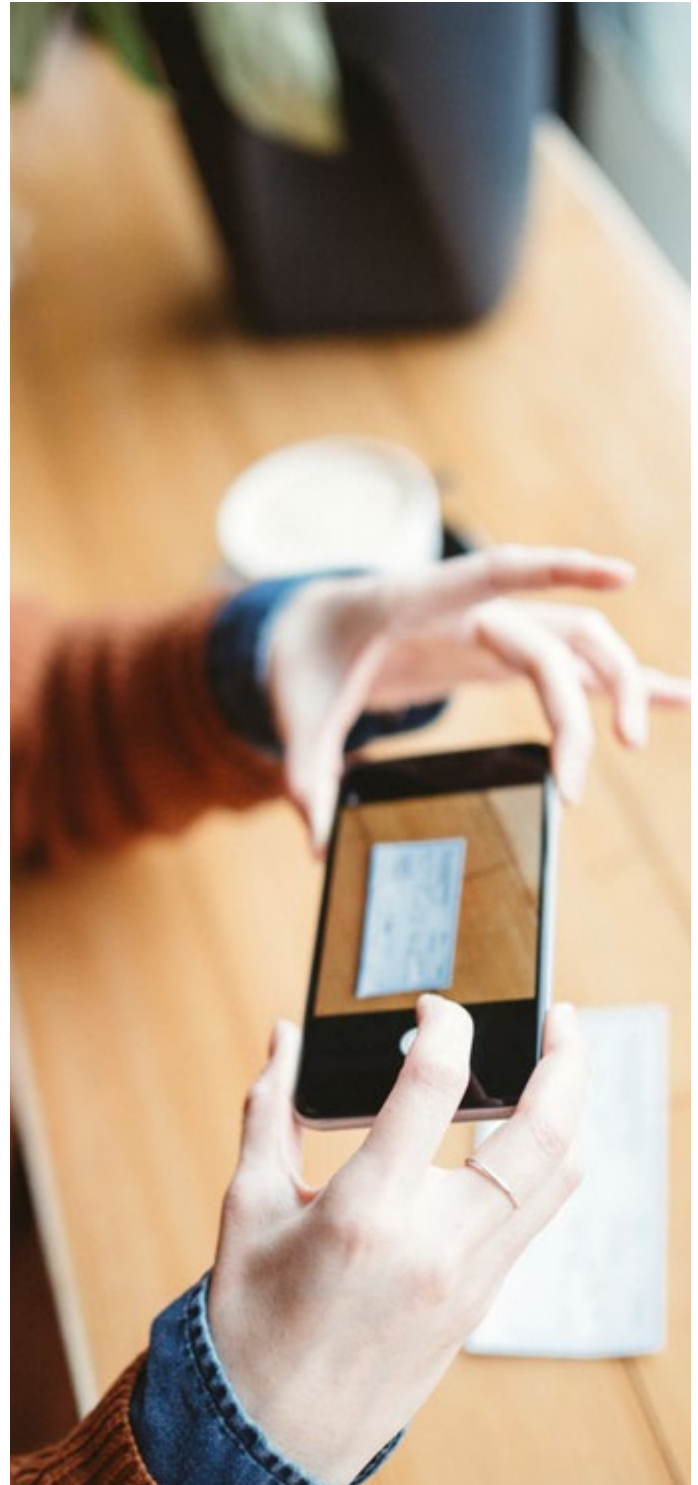
Characteristics of the FinTech and Financial Ecosystem

Banco Central del Uruguay (hereinafter, the BCU) is the regulatory body for the financial and FinTech sector through the Superintendency of Financial Services and the Payment System Area of the Economic Policy and Markets Management. We briefly review past actions, as well as future initiatives, that have contributed and continue to contribute to ecosystem growth.

Uruguay

60%

of companies are some sort of software “farms” and 40% of companies are product developers.



2

Main Regulations

2013

Promotion of Access to Financial Services

Before the Financial Inclusion Act, the BCU adopted certain measures in 2013 to promote access to financial services at the national level. In this context, the figure of financial correspondents (Circular 2149) which are institutions providing services on behalf and under the responsibility of financial intermediation institutions, was created to expand coverage. In addition, the retail banking license (Circular 2150) was regulated as a restricted license with less restrictive regulatory requirements, and Basic Savings Accounts (Circular 2152) were created to facilitate access to bank accounts for people with less income.

2014

Financial Inclusion Act

In April 2014, the Financial Inclusion Act (Law 19.210) was adopted, which essentially pursues two main objectives. The first objective is to promote universal access to basic financial services, making it possible to use them in particular for the largely excluded sectors. In this regard, measures were taken to promote access to and use of electronic payment methods and to facilitate access to loans in more favorable conditions.

In particular, the payment of remuneration, fees, pensions, fringe benefits, and other benefits through financial intermediation institutions or electronic money-issuing

institutions was made compulsory. Access to them by users is free of charge, and they must meet several basic conditions, such as granting a debit card, and allowing a certain number of free withdrawals and transfers per month.

Concerning the second objective, the Law sought to promote the transformation and modernization of the payment system. In line with this objective, the interoperability of POS and ATM networks was regulated to improve system efficiency and avoid non-competitive practices, and incentives were offered for investment in POS networks.

2014

Electronic Money

In September 2014, Law 19.210 created the Electronic Money Instrument and introduced the figure of Electronic Money-Issuing Institutions (EEDE)²¹² which are regulated by the BCU.

2016

Payment and Collection Service

In January 2016, companies offering Payment and Collection Services were regulated, which operate through the use of a payment account that allows for receiving and withdrawing funds, executing payment operations, performing collection services, among others. These last two instruments are the core of many of the companies that have become electronic wallets in Uruguay.

2018

Lending

In November 2018, the BCU acting through its Superintendency of Financial Services, regulated the activity of companies that manage lending platforms between individuals, known as Peer-to-Peer Lending (P2P) (Circular 2307).

²¹² Please note that the acronym is in Spanish.

3

Outstanding Initiatives

The BCU redirected its focus to emerging financial services technology. Thus, the entity's authorities agreed to promote the "NOVA" innovation program, which facilitates innovation processes in the financial system. It has three associated initiatives: The creation of an Oversight Agency, an innovation office and innovation node, as well as a FinTech Forum. NOVA is an open dialog space between specialists, entrepreneurs, and regulators to think about the future and contribute to creating value for users of the financial system, focusing on stability and user protection to enhance efficiency and accessibility of services.

Below, we provide a summarized description of these initiatives:

1. **Innovation Oversight Agency:** It is responsible for planning innovation activities; defining priorities in the field; facilitating coordination, overseeing exchange and internal analysis for decision-making; promoting an analysis agenda; proposing aspects related to legal or regulatory changes; and coordinating the activities of the innovation node together with institutions of the financial system and related institutions.
2. **Innovation Office:** It is the office designated to lead the execution of the different innovation projects defined by the Innovation Oversight Agency in coordination with the Superintendency of Financial Services and the Payment System Area of the Economic Policy and Markets Management; receive and analyze the new activities of the financial and payment system, in coordination with

the different report lines involved; propose, through the Innovation Oversight Agency, changes in the regulations to have better practices in the financial and payment system; coordinate and conduct research or studies on topics that may be considered relevant to the better functioning of the financial and payment system through innovation and report on their activity on cases received, projects being implemented, and required regulatory changes.

3. **Innovation Node:** It was created to periodically exchange views between financial system institutions and the public sector, facilitate the realization of innovation projects and the creation of basic infrastructure for their development, as well as understand the impacts of innovation on the regulatory framework.

The BCU is currently developing Open Banking regulations in Uruguay. To achieve this, different actors in the sector were called to participate in a committee where periodic meetings are held, which have a roadmap and a workflow.



4

Incentives and FinTech Trends

The digital services sector in Uruguay has enormous potential, which is reflected by important milestones achieved by the dLocal company, which stands out as one of the most innovative companies in Latin America. In addition, Uruguay ranked 17th among the 20 best countries in the world in this category, according to the “Global FinTech Ranking” prepared by Findexable (which scores each country based on three indicators: the number of FinTech companies it owns, their quality, and the local business environment).

In addition, Uruguay was the country that grew the most in terms of FinTech’s performance in one year, climbing 46 positions from ranking 63rd in 2020 to 17th in 2021. Thus, Uruguay is positioned in the global FinTech ranking as the second-best performing Latin American country, only behind Brazil. This great leap for Uruguay is mainly explained by the achievement of the company dLocal, which is now listed on the New York Stock Exchange, as well as by the cases of successful FinTech companies in the country such as Paganza, Prex, Micheque, Prometeo, and the cryptocurrency company Ripio, among others.

Furthermore, according to internet giant Google, Uruguay is a prominent “digital sprinter” in Latin America, standing out for its connectivity, inclusion, access, and education policies that are basic to development and transformation to create sustainable companies.

Other differential advantages that Uruguay presents such as the FinTech Hub—not only for the Region but also for the world—are that besides having the support of the BCU as a regulatory body that promotes innovation, Uruguay stands out for its sound, stable financial system, being a country respectful of the guidelines recommended by the Organization for Economic Cooperation and Development (OECD).

The country also offers a number of specific incentives for companies in the sector to use Uruguay as a Regional Hub. We must also point out the tax benefits directed to the software sector for FinTech technologies from Uruguay to the world, such as the exemption of the income tax, and the attractive regime of duty-free areas.



Appendix

List of Major FinTech Regulatory and Promotion Bodies, as well as Relevant Associations in Peru

1. Banco Central de Reserva del Perú (BCRP)

Telephone: +51 1613 2000
www.bcrp.gob.pe

It is an autonomous constitutional entity of the Peruvian State. According to the Constitution, the functions of the Banco Central de Reserva del Perú (BCRP) are to regulate the currency and credit of the financial system, to administer international reserves under its control, and the other functions indicated by its Internal Regulations. The Constitution also entrusts the BCRP with the issue of notes and coins and the accurate and periodical reporting to the country on the state of national finances. In addition, the actions of the issuing Institute should be oriented towards maintaining monetary stability, avoiding any inflationary or deflationary pressure on the economy.

2. Office of the Prime Minister - PCM

Telephone: +51 1 219 7000
www.gob.pe/pcm

The Office of the Prime Minister is the technical-administrative entity of the Executive Branch, the highest authority of which is the President of the Republic. It coordinates and monitors the multisectoral policies and programs of the Executive Branch. In addition, it carries out coordinated actions with Congress and with various constitutional bodies.

3. Superintendency of Banking, Insurance, and Private Pension Fund Management Companies (SBS)

Telephone: +51 1630 9000
www.sbs.gob.pe

The SBS is the agency responsible for regulating and supervising financial, insurance, private pension, and cooperative savings and credit systems, as well as preventing and detecting money laundering and terrorist financing. Its primary objective is to preserve the interests of depositors, insured persons, and members of the Private Pension System (SPP)²¹³.

4. Superintendency of the Securities Market - SMV

Telephone: +51 1610 6300
www.smv.gob.pe

The SMV²¹⁴ is a specialized technical agency attached to the Ministry of Economy and Finance (MEF) that aims to ensure the protection of investors, the efficiency and transparency of markets under its supervision, the correct establishment of prices, and the dissemination of all the information necessary for such purposes. It has a corporate existence under public domestic law and enjoys functional, administrative, economic, technical, and budgetary autonomy.

5. Ministry of Economy and Finance - MEF

Telephone: +51 1311 5930
www.gob.pe/mef

The Ministry of Economy and Finance (MEF²¹⁵) is the executive authority responsible for planning, directing, and controlling matters related to budget, treasury, debt, accounting, tax policy, public investment, and economic and social policy. It also designs, establishes, implements, and supervises national and sectoral policy under its scope of action, assuming the regulation thereof.

6. Secretariat of E-Government and Digital Transformation of the Office of the Prime Minister - SGTD

Telephone: +51 219-7000
www.gob.pe/7025-presidencia-del-consejo-de-ministros-secretaria-de-gobierno-digital

It is the governing body of the National Digital Transformation System, where it integrates the public, private, organized civil society, academia, and citizens in the areas of the country's e-government, digital trust, and digital transformation. Since its creation, the Secretariat has put together an extensive policy framework with the aim of strengthening and ensuring the digital transformation of the country, involving citizens and all key actors.

²¹³ Please note that the acronym is in Spanish.

²¹⁴ Please note that the acronym is in Spanish.

²¹⁵ Please note that the acronym is in Spanish.

7. The National Institute for the Defense of Free Competition and the Protection of Intellectual Property - INDECOPI

Telephone: +51 1224 7777
www.gob.pe/indecopi

The INDECOPI²¹⁶ promotes a culture of fair competition, protection of consumer rights and protects all forms of intellectual property (distinctive signs, copyrights, patents, and biotechnology).

8. Ministry of Transports and Communications - MTC

Telephone: +51 1 615 7800
www.gob.pe/mtc

The MTC²¹⁷ is the entity of the Peruvian State that seeks to achieve a rational territorial order linked to the areas of resources, production, markets, and population through the regulation, promotion, execution, and control of transportation and communications infrastructure..

9. Ministry of Industries and Fisheries - PRODUCE

Telephone: (01) 616 2222
www.gob.pe/produce

The Ministry of Industries and Fisheries (PRODUCE)²¹⁸ is an agency of the Executive Branch responsible for implementing and supervising national and sectoral policies in fisheries and aquaculture, industrial fisheries, medium and large aquaculture companies, industrial standardization, as well as controlled products, productive innovation, and technological transfer.

10. Ministry of Foreign Affairs (MRE): Executive Office for Economic Promotion - DPE

Telephone: +51 1 204 3361 / +51 1 204 3365 (DPE)²¹⁹
www.gob.pe/rree

The Executive Office for Economic Promotion (DPE) is the institution of the Ministry of Foreign Affairs (MRE) responsible for coordinating with Peruvian missions

abroad in an effort to promote Peru as a country capable of providing goods and services in international markets, as well as positioning it as a world-renowned tourist destination, and a country with interesting business and investment opportunities in different economic sectors.

11. Endeavor

Telephone: +51 0000 0000
www.endeavor.org.pe

Endeavor is an international organization with offices in more than 30 countries and is responsible for identifying entrepreneurs who lead high-impact companies, helping them maximize their potential through a network of mentors and allies that are second to none.

12. Peruvian FinTech Association

www.fintechperu.com

Association of business owners that seeks to contribute to the development of Peru, the FinTech ecosystem, and financial inclusion through transparent, efficient, and effective business models based on financial innovation, impact generation, collaboration, and cooperation with different public and private actors, at the national, regional and global levels.

13. Peruvian Banking Association - ASBANC

Telephone: +51 1 612-333
www.asbanc.com.pe

Founded in 1967, the Peruvian Banking Association (ASBANC)²²⁰ is an institution that groups the banks and private financial institutions of Peru and whose main objective is to promote the strengthening of the private financial system, providing its members with information services. It is also a liaison among the financial institutions of the country, identifying, developing, and managing aspects of common interest to them, for their promotion and development.

216 Please note that the acronym is in Spanish.
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14. Peruvian Association of Insurance Companies - APESEG

Telephone: +51 2011600
www.apeseg.org.pe

Founded in 1904, the Peruvian Association of Insurance Companies (APESEG)²²¹ groups insurance and reinsurance companies operating in Peru. Some of its objectives are to promote awareness of and access to insurance for families and businesses to protect their income and continue to contribute to the development of the country.

15. Peruvian Association of Seed and Venture Capital - PECAP

www.pecap.pe

PECAP²²² is the association representing venture capital investors in Peru. Its main objective is to promote financing in innovative ventures that generate inclusive development in Peru, thus seeking to contribute to the increase of productivity and competitiveness of the country, and the generation of quality employment.

16. Lima Stock Exchange - BVL²²³

Telephone: +51 619-3333
www.bvl.com.pe

The Lima Stock Exchange has as its mission to contribute to the development of Peru, leading the growth of the capital market, promoting and encouraging financing and investment through stock market instruments. Thus, the main objective of the Lima Stock Exchange is to facilitate the negotiation of the securities registered on the stock exchange, providing the services, systems, and mechanisms for intermediation in a fair, competitive, orderly, continuous, and transparent manner.

17. The National Institute of Statistics and Information - INEI

Telephone: +51 1 652 0000
www.inei.gob.pe

INEI is the agency responsible for producing and disseminating official statistical information that the country needs with the quality, timeliness, and coverage

required, with the aim of contributing to the design, monitoring, and evaluation of public policies and the decision-making process of socio-economic agents, the public sector, and the community at large.

18. Peruvian Factoring Association - APEFAC

Telephone: +51 1 612 52 52
www.apecfac.com

This institution aims to promote and support sustainability, research, development, production, dissemination, creation, implementation, marketing, consulting, and representation of Factoring companies in Peru. It contributes to the social and economic development of the country by promoting the practice of Factoring, as well as the improvement and transparency of this industry.

19. Peruvian Association of Microfinance Institutions - ASOMIF

Telephone: +51 1 421-7336
www.asomifperu.com/web/

A committee made up of institutions specialized in microfinance, whose purpose is to promote common actions that support the operational development of its members for the benefit of the public demanding their services, which are generally not covered by traditional banking.

20. Peruvian Federation of Municipal Savings and Credit Unions - FEPCMAC

Telephone: +51 1 222-4002
www.fpcmac.org.pe

The FEPCMAC²²⁴ enjoys economic, financial, and administrative autonomy and is made up of 11 Municipal Savings and Credit Unions operating throughout the national territory in a decentralized manner. It represents the Municipal Savings and Credit Unions (CMAC) system as a valid facilitator in the various coordination with public and private, national, and international organizations that support the economic and financial development of the CMAC system.

²²¹ Please note that the acronym is in Spanish.

²²² Please note that the acronym is in Spanish.

²²³ Please note that the acronym is in Spanish.

²²⁴ Please note that the acronym is in Spanish.

21. Lima Chamber of Commerce

Telephone: +51 1 463 3434
www.camaralima.org.pe

For the past 128 years, the Lima Chamber of Commerce has represented and defended the interests of the business class before the country’s authorities, as well as national and foreign entities. As part of its activities, it promotes free-market policies and free competition with a sense of social responsibility, as well as fair and honest competition within a framework of values and ethical principles, fostering domestic and foreign trade and promoting good commercial practices. Moreover, it is a strategic partner of the State, cooperating to ensure that the laws and other provisions foster national social and economic prosperity, taking the initiative in offering proposals and assuming responsibility in the activities entrusted to it by the State.

22. Peruvian Foreign Trade Association - ComexPeru

Telephone: +51 1 625-7700
www.comexperu.org.pe

ComexPeru is a private association that groups the leading companies involved in foreign trade in Peru. Its main purpose is to contribute to the improvement of competitive conditions within a free market environment that will make Peru an attractive destination for private investment.

23. National Confederation of Private Business Institutions - CONFIEP

Telephone: +51 1 415-2555
www.confiep.org.pe

This institution brings together and represents private business activities within Peru and abroad. Its principal objective is to contribute to the process of sustained economic growth, based on investment and job creation through individual effort and initiative, the promotion of entrepreneurship, and private property.

24. Association of Capital Markets Business Promoters - PROCAPITALES

Telephone: +51 1 440-1080
www.procapitales.org

The Association of Capital Markets Business Promoters (Procapitales)²²⁵ brings together the principal actors in the market, channeling their concerns and proposals. It acts as a business guild to focus fundamentally on promoting investment and capital markets. It speaks on behalf of its members to the public sectors with proposals to reduce legal costs and bureaucratic barriers that hinder easy market access. The institution’s principal objective is to encourage an efficient legal framework and appropriate corporate governance practices.

25. InPeru

Telephone: +51 1 619 3333
www.inperu.pe

InPeru is a non-profit association for the promotion of investment in Peru among the principal international financial markets, seeking an exchange of good practices and, in general, providing information on Peru as a destination for a range of investment opportunities. The founders of InPeru include the following private institutions: Lima Stock Exchange (BVL)²²⁶; Cavali; Private Pension Fund Management Companies Association (AFP)²²⁷; Peruvian Banking Association (ASBANC)²²⁸; Procapitales; Peruvian Finance Association (APEF)²²⁹; National Confederation of Private Business Institutions (CONFIEP)²³⁰; and the Peruvian Association of Insurance Companies (APESEG). It also has the support of the Peruvian State, through the Ministry of Economy and Finance (MEF); the Ministry of Foreign Affairs (MRE) Banco Central de Reserva del Perú (BCRP); the Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS); the Peruvian Securities and Exchange Commission (SMV); the Private Investment Promotion Agency (ProInversión); and PromPerú.

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Our Services



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or [click here](#) to learn
more about our
services.

EY has a global, comprehensive, and multidisciplinary approach to providing financial and FinTech regulation advice with more than 300 professionals in the EY Latam Region and over 40 professionals in EY Peru engaged in the provision of services to this industry, including specialists in project processes, economists, legal experts, financial auditing, compliance, IT management, and other services. Our team is closely interconnected, regionally and globally, and shares industry and technical expertise to provide our customers with a global and strategic service without limitations. The following are some of our specialized services in financial and FinTech regulation:

► Financial and FinTech Regulation

The Financial and FinTech Regulation area aims to provide comprehensive legal accompaniment to financial system companies and entrepreneurs (startups or BigTechs) in their daily operations through legal and regulatory advice, in the design and implementation of financial products and services, corporate governance, legal innovation, legal design, risk management (prudential regulations) cybersecurity, financial licensing and soft landing, negotiation of commercial alliances, prevention of Anti-Money Laundering and Countering Financing of Terrorism (PLAFT) and regulatory compliance.

► Competition and Markets

This area provides advice, support in the design and implementation of compliance and sponsorship programs in litigation in the areas of free competition, unfair competition, consumer protection, bureaucratic barriers, and personal data protection with a tailored work approach that takes into account strategic aspects and communications that can affect different business models. We also advise companies on regulatory matters with the preparation of documents for the management of public affairs.

► Seed by EY

Seed by EY joins the Latin American ecosystem of entrepreneurship and innovation, offering professional services specialized in the Venture Capital and Impact Investment industries, and is designed for startups, investors, VC funds, corporations, accelerators, incubators, and other ecosystem actors under a multidisciplinary, integrated and tailored approach.

► **Corporate and Capital Market**

This area provides advice on corporate affairs, transactions and reorganizations, financing operations, and regulation of the Peruvian capital market. Our team has extensive experience in transactions with international multilateral companies, international banks, national banks, and financial entities, broker-dealers, investment funds, insurance companies, as well as companies from various sectors such as construction, real estate, and others. Recent growth areas include corporate affairs, securitization, real estate investment trusts (REITs) finance operations, compliance, corporate governance, and regulation of capital markets and investment funds.

► **Advisory Services for the Financial Industry**

Our Financial Services Office (FSO) seeks to assist, with appropriate risk management, in consolidating a sound, inclusive, innovative financial and technological ecosystem and to foster the development of financial products and services based on the best practices of the financial industry. We also seek to ensure FinTech companies comply with the applicable Peruvian regulations set by the Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS).

► **Integrity Risk Management Services**

Our integrity risk management professionals aim at helping companies and institutions, in general, to protect their corporate reputation by assisting them in prevention, detection, and response to irregular activities, and supporting them with independent investigation reports or reports associated with dispute situations. Our services seek to improve the effectiveness and sustainability of integrity programs, aligned with compliance with laws, regulations, and standards related to matters such as anti-corruption, prevention of money laundering and terrorist financing, free competition, and others.

► **People Advisory Services**

The People Advisory Services team knows what is necessary to comply with labor and tax-labor obligations related to foreign and local workers. This will allow our customers to be aware of regulatory changes and effectively manage their human talent.

EY has a network of professionals in more than 150 countries, with in-depth knowledge of labor, labor-procedural, immigration, and tax-labor law, who are willing to offer strategic and effective solutions, such as cost optimization and risk management, to provide tailored and immediate advice.

► **Financial Accounting Advisory Services**

Our Financial Accounting Advisory Service (FAAS) comprises a wide range of accounting, financial reporting, and data analysis services focused on strengthening and optimizing the financial function. FAAS supports the determination, monitoring, and disclosure of financial and non-financial information for your stakeholders, focusing on the CFO agenda and providing financial managers, controllers, treasurers, and audit committees with services to meet the current requirements for financial reporting that will allow for better decision-making. FAAS also strengthens the financial function through innovative services and tools aimed at analyzing financial data and optimizing and streamlining the closing process of financial statements.

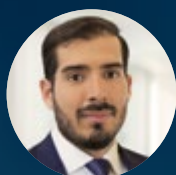
► **Tax Advisory Services**

The Tax Advisory Services area offers specialized services for corporate tax advice in a global and dynamic environment, advising customers in the entrance, financing, nesting, alliances, ongoing and potential exit in the case of startups, giving appropriate treatment to the various taxes that may be applicable. The FinTech Tax area performs a local and cross-border analysis for the FinTech company, as well as on the impacts on customers for products that can be offered under the current regulatory framework.

The team has marked expertise in sectoral taxation in the financial taxation and FinTech sector, which allows us to allocate tax specialists according to the type of industry with a predominant focus on tax optimization work.

EY Peru

Our Specialized FinTech Business Team



Dario Bregante

Senior Manager, Financial Regulation and FinTech
dario.bregante@pe.ey.com



María del Pilar Sabogal

Lead Partner, EY Law
maria.sabogal@pe.ey.com



Mercedes Fernández

Associate Partner, EY Law
mercedes.fernandez@pe.ey.com



Álvaro Arbulú

Partner, Tax Advisory Services
alvaro.arbulu@pe.ey.com



Numa Arellano

Partner, Advisory Services for the Financial Industry
numa.arellano@pe.ey.com



Tania Sánchez

Associate Partner, Advisory Services for the Financial Industry
tania.sanchez@pe.ey.com



Mauro Ugaz

Partner, People Advisory Services
mauro.ugaz@pe.ey.com



Cecilia Melzi

Partner, Forensic and Integrity Risks Services
cecilia.melzi@pe.ey.com



Antonio Benites

Leading Partner, Financial Accounting & Climate Change and Sustainability Advisory Services
antonio.benites@pe.ey.com



Augusto De la Cruz

Partner, Financial Accounting & Climate Change and Sustainability Advisory Services
augusto.delacruz@pe.ey.com

EY Latin America

Our FinTech team

María del Pilar Sabogal

Lead Partner, EY Law Peru
maria.sabogal@pe.ey.com

Dario Bregante

Senior Manager, Financial Regulation and FinTech, EY Law Peru
dario.bregante@pe.ey.com

Juan Pablo Grisolia

Partner, Business Consulting, EY Argentina
juan-pablo.grisolia@ar.ey.com

Jorge Garnier

Partner, EY Law Argentina
jorge.garnier@ar.ey.com

Javier Huici

Partner, Audit and Finance, EY Argentina
javier.huici@ar.ey.com

Chen Wei Chi

Partner, EY Financial Services Digital Innovation and Transformation, Brazil
chen.weichi@br.ey.com

Emilio Ramírez-Gamiz

Associate Partner, Legal and Regulatory Services in Financial Matters, EY Law Mexico
emilio.ramirez-gamiz@mx.ey.com

Ximena Zuluaga

Partner, EY Law Colombia
ximena.zuluaga@co.ey.com

Marco Ventura

Senior Manager, EY Financial Service, Colombia
marco.ventura@co.ey.com

Mauricio Martínez Gutierrez

Partner, Technology Consulting, EY Chile
mauricio.martinez@cl.ey.com

Roberto Drummond

Senior Manager, Technology Consulting, EY Ecuador
roberto.c.drummond@ec.ey.com

Marina Abal Rosales

Partner, Business Consulting, EY Panama
marina.abal@pa.ey.com

Luis Goncalves Dos Santos

Senior Manager, Technology Consulting, EY Panama
luis.goncalves@pa.ey.com

Ernesto Scayola

Executive Director, Business Consulting, EY Uruguay
ernesto.scayola@uy.ey.com

Acknowledgments

María del Pilar Sabogal	Business Consulting, EY Argentina	EY Law México
María Alejandra Ortiz	Mariana Baigorria	Business Consulting, EY Uruguay
Paulo Pantigoso	Paul Mendoza	Technology Consulting, EY Ecuador
Astrid Mogollón	EY Law Colombia	Technology Consulting, EY Chile
Mario Arce	Augusto De la Cruz	EY Financial Services Innovación y Transformación Digital, EY Brasil
David De la Torre	Antonio Benites	Business Consulting, EYCA EY Law Argentina
Mercedes Fernández	EY Financial	EY Financial Service Latam North, EY Colombia
Adolfo Morán	Services Innovación y Transformación Digital, EY Brasil	
Mario Zúñiga		
Walter Álvarez		
Desirée Alayza		
Dario Bregante		
Sergio Avendaño		
Miya Mishima		
Flavia Dyer		
Ana Lucía Maeda		
Geraldine Sánchez		
Tania Sánchez		
Dany Baca		
Cecilia Melzi		
Luis Trujillo		
Bruno Mejía		
Sonia Rengifo		
Joaquín Valdivia		
María Alejandra Calle		
Evelyn Montoya		
Francisco Herrera		
Fátima Abanto		
Álvaro Arbulú		
Wilfredo Mego		
Mauro Ugaz		

Public Sector, Private Sector, and Guilds

- ▶ Superintendency of Banking, Insurance and Private Pension Fund Management Companies (SBS)
- ▶ Superintendency of the Securities Market (SMV)
- ▶ Peruvian FinTech Association
- ▶ Emprende UP Innovation Center (Emprende-UP)
- ▶ Peruvian Association of Seed and Venture Capital (PECAP)
- ▶ AgenteBTC
- ▶ Inversiones.io

Acronyms and Terms

- ▶ **BCRP:** Banco Central de Reserva del Perú
- ▶ **BIS:** Bank for International Settlements (BIS)
- ▶ **CAF:** Andean Development Corporation
- ▶ **IGV:** Value Added Tax
- ▶ **INDECOPI:** National Institute for the Defense of Free Competition and the Protection of Intellectual Property
- ▶ **INEI:** National Institute of Statistics and Information
- ▶ **ITAN:** Temporary Tax on Net Assets
- ▶ **ITF:** Tax on Financial Transactions
- ▶ **LAFT:** Money Laundering and Terrorist Financing.
- ▶ **LAVCA:** Latin America 2021 Industry Data and Analysis
- ▶ **MIPYMES:** Micro, Small and Medium-sized Businesses
- ▶ **PECAP:** Peruvian Association of Seed and Venture Capital
- ▶ **RENIEC:** National Registry of Identification and Vital Statistics
- ▶ **RUC:** Tax ID Number
- ▶ **SBS:** Superintendency of Banking, Insurance and Private Pension Fund Management Companies (AFP)
- ▶ **SGTD:** Secretariat of E-Government and Digital Transformation
- ▶ **SMV:** Superintendency of the Securities Market
- ▶ **SUNAFIL:** National Superintendency for Labor Audits
- ▶ **SUNARP:** National Superintendency of Public Records Offices
- ▶ **SUNAT:** National Superintendency of Customs and Tax Administration
- ▶ **UIT:** Tax Unit
- ▶ **VAT:** Value Added Tax

Disclaimer

This publication contains summarized information and is therefore intended solely as a general reference guide for facilitating access to information related to potential business. It is not intended, under any circumstances, to be used as a substitute for detailed research or the exercise of professional criteria and judgment. Additionally, the constant changes in the markets and their resulting information may result in the need to update the information included in this document. EY assumes no responsibility for the economic results that any person, company, or business may attempt to attribute to any material in this publication. For all specific business or investment matters, advice should always be sought from a qualified advisor.

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