

# REGULATORY LAW FOR THE STOCK MARKET

LAW 7732

THE LEGISLATIVE ASSEMBLY OF  
THE REPUBLIC OF COSTA RICA

DECREES:

REGULATION AND SUPERVISION OF SECURITIES MARKETS

## Article 1. Objective

The objective of this law is to regulate securities markets, the private individuals or corporate entities that are either directly or indirectly involved in them, the actions or contracts related to them, and the securities negotiated through them.

## Article 2. Public offering

For the purpose of this law, the public offer of securities is understood as any offer, whether implied or explicit, to issue, place, negotiate or trade securities that is transmitted by whatever means to the public or to specific groups. Securities are understood to be certificates and any other monetary or equity rights, whether incorporated or not in a document, which because of their legal form and means of transmission may be the object of negotiation in a financial or securities market.

Only entities and individuals authorized by the Superintendency could offer securities in the country, excepted are the cases included in this law. The same principle will apply to the rendering of intermediation stock services and other activities regulated by this law.

The Superintendency will act pursuant to law or in response to external consultations establish the general application criteria to be followed to categorize public offerings and if a document or a right not incorporated in a document constitutes a security according to the terms of the first paragraph.

## Article 3. Creation and functions

The General Superintendency of Securities, referred to in this law as the Superintendency, shall be created as an organ of maximum de-concentration of the Central Bank of Costa Rica (Banco Central de Costa Rica). The Superintendency shall concern itself with the transparency of the securities markets, the correct formulation of prices in them, protection of investors and the broadcast of the necessary information to assure these ends. It shall conform its activities to what is specified in this law, its regulations and other applicable laws.

The Superintendency shall regulate, supervise, and control securities markets, the activities of private individuals or corporate entities that are directly or indirectly involved in them, and the actions or contracts related to them,

as specified in this law.

#### Article 4. Consulting the Superintendency

The Executive Power, central and decentralized administrative organs, and public entities should consult with the General Superintendency of Securities before issuing general acts with respect to securities markets. In addition, the Superintendency should emit an opinion on policies dictated by other institutions that affect these markets, and coordinate them with the Executive Power. It may also present to the Executive Power and decentralized public entities any proposals concerning said markets that it may deem necessary. The Superintendency shall prepare and publish an annual report in which it shall refer to its actions, the criteria which have guided them and the general situation of the securities markets.

#### Article 5. Additional functions

#### Article 6. Registering

All private individuals or corporate entities, to the exception of investors, that participate either directly or indirectly in securities markets, the actions and contracts in these markets, and the issuing of securities for public offer should register in the National Registry of Securities and Intermediaries, according to the regulations of the Superintendency. The information in the Registry shall be public domain. Investors who are major shareholders, as defined by this law, should immediately inform the Superintendency of their holdings.

The Superintendency shall regulate the organization and operation of the Registry, the type of information considered necessary for the Registry, and its updating, in order to guarantee the market transparency and to protect investors.

The Superintendency should make sure that the information in the Registry is sufficient, timely, and appropriate, so that the investing public can make informed investment decisions.

#### Article 7. Consulting committees

The Superintendency may designate, whenever and for as long as it deems necessary, consulting committees consisting of representatives from the regulated parties, investors and other economic sectors, that shall study specific topics and issue non-binding recommendations.

#### Article 8. Attributes of the Superintendent

The following shall be the attributes of the Superintendent:

Exercise legal and extra-legal representation of the Superintendency, with unlimited general power of attorney. He or she may delegate certain power to administrators or other officers of the Superintendency, according to the rules of the National Council.

Take all actions necessary for effective fulfillment of the regulatory, supervisory and controlling functions of the Superintendency as set out in this law.

Submit for consideration to the National Council regulations proposed to be adopted by the Superintendency, in accordance with this law, and all reports

and dictums that the Council requires for exercising his or her attributes. Apply to the controlled entities the cautionary measures and sanctions provided in Title IX of this law.

Execute the regulations and agreements of the Directory Council.

Serve as administrative leader in the Superintendency and exhaust the administrative action in terms of personnel.

#### Article 9. Internal auditing

The Superintendency shall have an internal auditing department that shall verify the fulfillment of the regulatory, supervisory and control duties specified in this law and in the rules emitted by the Superintendency. The audit department shall also verify the sufficiency of the internal control systems set up by the Superintendent. The internal auditing department of the Central Bank of Costa Rica shall be charged with supervising the correct administration of the budget.

The internal auditing department shall report directly to the Directory Council and shall be managed by an internal auditor and an assistant auditor appointed by the National Council on the approval of at least five of its members.

Both the auditor and the assistant auditor shall be full-time officers with exclusive contracts. The National Council shall also have the consultants it requires for the proper execution of its duties.

The internal auditor should attend National Council meetings, with voice but no vote.

#### Article 10. Object of public offering

Only issues in series, in accordance with the regulations of the Superintendency and authorized by the same, may be objects of public offering. An exception is made for the issuing of individual debt securities by entities under the control of the General Superintendency of Financial Entities.

With respect to the first paragraph of this Article, the issuing of securities by the government and non-banking public institutions shall only be exempt from authorization for public sale.

#### Article 11. Requirements for authorization

The authorization mentioned in the above Article is subject to the following minimum requirements:

Presentation of an application with formalities and content as determined by the rules of the Superintendency.

Presentation of documents that certify the issuing agreement, the characteristics of the issued securities, and the rights and obligations of the holders.

The existence and registration of an external audit of the issuing firm, under the terms fixed by the rules of the Superintendency, which may require the audit to include other firms in the same economic interest group.

Presentation and pre-registry of an informative prospectus which should contain all relevant information on the issuer and the projected issuance, under the terms set by the rules of the Superintendency. The content of the prospectus shall be binding for the issuing firm.

An indication of the maximum and minimum time periods between the authorization of the issuance and its placement in the market, in accordance with the regulations of the Superintendency.

Any other requirement the Superintendency may decide to add to its regulations, in order to safeguard the interests of investors.

#### Article 12. Forms of placement

The issuing of securities may be done directly or through the securities exchanges. However, in no case may discriminatory treatment be given to investors in access to or announcing of information, prices and other issuing conditions, in accordance with the regulations of the Superintendency.

#### Article 13. Requirement for public offering

Public offering of securities, intermediary services, as well as services rendered by other participating parties in securities markets may not be false or misleading in the characteristics of the issue, issuer, or activities of the service provider.

Authorization for public offering does not imply a qualification on the good faith of the issue or the solvency of the issuer or intermediary. This statement should be included in all documents regarding public offering and its advertising, according to the regulations of the Superintendency.

In addition, the Superintendency should verify that the risks and characteristics of issue are sufficiently well explained in the issue prospectus. When the Superintendency deems that the information is insufficiently clear, it may include its own covenants in a prominent place of the prospectus, prior to its approval.

#### Article 14. Conditions for partial exoneration

The National Council shall specify in its regulations the conditions under which partial exoneration may be granted for complying with the requirements set forth in this chapter, for specific categories of securities issues and convertible stock options, when there is a small issue or restricted number of investors. In no case may the Superintendency use this power when the same issuer already has securities with analogous characteristics being negotiated in a secondary organized market. The Superintendency may also not establish a limit or content for the audits that is smaller than that provided for in this law.

#### Article 15. Negotiable paper

The issue of securities referred to in the first paragraph of Article 10 should be done with negotiable paper, if the period is shorter than 360 days, or through bonds if it is 360 or more days.

#### Article 16. Renewing authorization

To renew authorization for public sale of an issue of negotiable paper with



the same conditions, the issuer needs only to notify the Superintendency in writing at least ten working days before the expiration date of the issue in circulation, as long as the Superintendency has no objections to this request within the aforementioned period and it conforms to all other particular of this law and its regulations.

#### Article 17. Issue

Negotiable paper, bonds and their interest coupons may be issued "to the order of" or to the bearer and shall be considered executable for conversion to cash, in accordance with Article 630 of the Code of Civil Processes.

#### Article 18. Unauthorized issues

The Superintendency shall not authorize, under any circumstances, the issue of negotiable paper to finance investment projects or for any purpose which recuperation or cash flow schedule is foreseen to extend past 360 days.

#### Article 19. Issue guarantee

Each issue may be additionally guaranteed through the usual instruments for guaranteeing common obligations, such as a mortgage, pledge, or guarantee trust for bonds or negotiable paper. These securities should be deposited in a financial entity under the control of the General Superintendency of Financial Entities or in a depository.

They may also be guaranteed by means of a pledge without shift or guarantee of entities authorized for this purpose. In these cases, the Superintendency may set limits on the amount issued with respect to the value of the guarantees.

#### Article 20. Drawings

If the issue document stipulates that the bonds will be reimbursed by drawings, these should be open to the public, according to the rules of the Superintendency.

#### Article 21. Issue by corporations

Corporations may issue bonds convertible to stocks. These must comply with the regulations established by the Superintendency for these cases.

#### Article 22. Organization

Secondary securities markets shall be organized by the securities exchange with the prior authorization of the Superintendency. In such markets, only securities issues registered in the National Registry of Securities and Intermediaries may be negotiated and offered to the public.

Nevertheless, securities exchanges shall be able to carry out transactions with certificated and securities that that have not been registered in this Registry. To this end, the Superintendency shall indicate in general provisions, the required information on issuers, certificates and the characteristics of these operations, that the exchanges should make public knowledge. The securities referred to in this paragraph may not be placed as a public offering.

The stock exchanges must take care that operations with unregistered certificates and securities are transacted separately from the market for registered certificates, and these should be properly identified as transactions outside the supervision of the Superintendency. Certificates or securities transacted in this manner may not be included in the portfolios administered by investment funds. Transactions of these securities are the exclusive responsibility of the parties involved.

The securities referred to in the second paragraph of Article 10 of this law may be negotiated on the exchange, as long as the period is no longer than 360 days. They shall come under the stipulations in the two paragraphs above, to the exception that they may constitute public offering and be included in the investment fund portfolio, as long as they are short-term investment funds or money market funds.

#### Article 23. Buying and selling and repurchasing

Buying and selling and the repurchase of securities object of public offering shall be handled by the respective members of the stock exchanges. Non-onerous title transactions shall not be considered part of the secondary market, but should be reported to the Superintendency using means dictated by the Superintendency. Failure to comply with these provisions will result in the annulment of the transaction.

The Superintendency shall regulate exceptional cases where the exchanges may authorize operations outside of the normal negotiating mechanisms, as long as these are handled by a member of the exchanges and according to the regulations of the Superintendency. These regulations shall define, at the least, the types of operation that may be authorized and the minimum amounts. In all cases these operations shall be the responsibility of the parties and may not set an official price.

#### Article 24. Requirement for transactions

In order to guarantee transparency in pricing, the transactions in the secondary securities market should comply with the minimum requirements of announcements, frequency and volume of operations set forth in the regulations by the Superintendency. The Board may decide on its own or at the request of the respective issuer to prohibit a firm from participating in the secondary market if it fails to comply with the requirements. In these cases, the Superintendency may take any necessary measures to protect the interests of minority shareholders, including allowing the firm the option of making a public offer to buy under the term of this law.

Likewise, should there be disorderly conditions or operations contrary to the good practices in the market, the Superintendency could temporarily put a hold on the negotiation of securities.

#### Article 25. Public information

At the moment a transaction is made in the secondary market, the type of securities, amount, price, time the transaction was completed, and brokerage houses involved in the transaction shall be considered public information.

#### Article 26. Brokerage fees

Brokerage fees in the secondary market shall be freely set. The fees must be made public in accordance with what the Superintendency decides. To this end and in order to guarantee freely set fees, the Superintendency should report to the Committee for free competition any cases of monopolistic practices or tendencies, without prejudice to the sanctioning powers given it by this law.

#### Article 27. Objective

Stock exchanges have as their only objective the facilitating of securities transactions, exercising their legally defined duties of authorization, control and regulation of brokerage houses and brokers.

They shall be organized as corporations and shall be the property of the brokerage houses that participate in them. Their capital shall be in common nominative stock, underwritten and paid by the brokerage houses admitted to the respective exchange.

In no case may any individual brokerage house hold more than twenty percent (20%) of the total capital of the corporation.

Whenever an increase in the capital stock is declared, the brokerage house shall have the right to acquire a share participation in the capital equal to that which they already have. Unclaimed shares of these increases, prior to the increases and in accordance with the corporate contract, may be claimed by the remaining brokerage houses in the same proportion as their share in the total capital stock. Only after each brokerage house has exercised its rights of priority shall the others be able to increase their individual shares within the limit set in the preceding paragraph.

#### Article 28. Requirements for operation

The Superintendency shall authorize the operation of a stock exchange when this complies with the following requirements:

It is constituted as a simultaneously founded corporation under the terms mentioned in the above article.

It's social purpose is limited to the activities authorized by this law and its regulations

It has at all times a minimum capital stock of two hundred million colones (200,000,000.00), owned and paid for initially in cash. This amount shall be adjusted by the Superintendency according to changes in the price index and later changes in the minimum levels of capital proportional to the volume of activity set through regulations by the Superintendency.

It submits for approval its projected statutes, by-laws and procedures, which should seek to encourage proper transparent pricing and protection for the investor. To this end, the Superintendency may require specific material to be included in these by-laws.

All administrators, managers and agents must be morally upright and have ample qualifications and experience; none may have been found guilty of crimes against property or public faith.

It must comply with all other requirements set forth in this law or any regulations stipulated by the Superintendency.



The authorized exchange should begin operations within six months after receiving notification; if it does not do so, the Superintendency shall cancel the authorization. This authorization is not transferable or taxable, either directly or indirectly.

#### Article 29. Functions and attributes

The functions and attributes of the exchanges shall be the following:

Authorize the operation of brokerage houses and stockbrokers, regulate and supervise their exchange operations and assure that they comply with this law, the regulations of the Superintendency, and the rules of the exchange to which they belong, without interfering with the attributes of the Superintendency.

Establish the means and procedures to enable supply and demand transactions of the securities registered in the National Registry of Securities and Intermediaries.

Establish regulations for the operation of markets organized by them, which regulations should reflect a concern for objective, transparent pricing and protection for investors.

Guarantee proper transparent pricing in the market and enforcement of legal norms and regulations in exchange negotiations, without interfering in the powers of the Superintendency.

Cooperate with the supervisory duties of the Superintendency and notify it immediately upon learning of any violation of the provisions of this law or regulations established by the Superintendency.

Make sure that the brokerage houses require a minimum guarantee from their clients and fulfillment of guarantees and coverage regime for credit and term payment operations, in accordance with the regulations of the respective exchange.

Suspend, whether by its own decision or obligatorily on orders from the Superintendency, the negotiation of securities when conditions are disorderly or there are operations incompatible with healthy uses and practices of the market. When suspension is its own decision, the exchange should notify the Superintendency immediately of the decision to suspend.

Authorize the operation of stockbrokers, when they comply with the requirements of this law and the regulations of the respective exchange.

In accordance with the rules of the Superintendency, publish current information on securities accepted for negotiation, the issuers and their classification if applicable, volume, price, brokerage houses participating in the exchange operations, lists of authorized rating agencies, and the financial status of the brokerage houses and the exchanges themselves.

Maintain a voluntary arbitration system to resolve equity conflicts that may arise in exchange operations between brokerage houses, brokers and their brokerage houses, or between brokerage houses and their clients. This system shall be binding for all parties that agree to the arbitration, which shall be wholly governed on the rules in the corresponding Code of Civil Processes.

Offer consulting when needed to the Superintendency.

Apply coercive enforcement or contractual resolution of exchange operations,



enforce financial settlement of these operations, and if applicable, put into effect the guarantees that the brokerage houses have to give. This should all be done according to the periods and procedures stated in the regulations of the respective exchange. With respect to financial settlements of exchange operations, this shall apply only if the respective exchange carries out clearing and settlement activities under the terms of this law.

Any other attributes that the Superintendency may authorize, in accordance with its attributes.

#### Article 30. Organizational requirements

Each stock exchange shall have the administration it deems best for its purposes, in accordance with the law. Nevertheless, its organization should conform to the following:

There can be no more than one member on the board of directors who is also administrator, manager, employee or owner of more than two percent (2%) of the stocks of the same brokerage house or of any entity belonging to the financial group to which the brokerage house pertains.

The board of directors should have at least two directors with no link whatsoever to stock exchanges or the financial group of these brokerage houses.

There should be a Disciplinary Committee made up of one of the members of the board of directors described in the section above, the manager of the exchange or a person designated by him or her, and an independent lawyer uninvolved in the active administration of the exchange. This Committee shall be responsible for disciplinary actions against brokerage houses and stockbrokers, in accordance with what is stipulated in this law.

#### Article 31. Reserve fund

Ten percent (10%) of the stock exchange net profits shall be set aside for the creation of a legal reserve fund. This obligation shall end when the fund reaches forty percent (40%) of the owned and paid capital stock.

#### Article 32. Prohibition

It is prohibited for stock exchanges to fix or recommend the fees that brokerage houses charge their clients.

#### Article 33. Reporting

The stock exchanges should submit a monthly report to the Superintendency in which it gives the composition of its investments, in as much detail as the Superintendency requires. The Board may impose limits on these investments in order to prevent possible conflicts of interest.

#### Article 34. Duties of the acquirer

Whosoever acquires, either directly or through an intermediary, stocks or other securities that directly or indirectly confer the right to underwrite or acquire stocks in a corporation that is registered in the National Registry of Securities and Intermediaries, and as a result of these operations controls ten percent (10%) or more of the total underwritten capital stock of the corporation, should notify the corporation involved, the exchanges where these

stocks are negotiated, and the Superintendency of the fact. For the purposes of this law, all stocks in the power of the interest group in which the purchaser is a member or for which he or she is acting are considered the property of the purchaser or stock transferor.

#### Article 35. Duties of directing officers

All private individuals who belong to the board of directors, the watch committee, or who occupy any managerial position in a corporation registered in the National Registry of Securities and Intermediaries, must report, under the same terms as in the above Article, all operations he or she carries out with his or her shares in said corporation, regardless of the amount or volume.

#### Article 36. Tender offer

Whosoever wishes to acquire, either directly or indirectly, in a single action or successive actions, a volume of stocks or other securities of a corporation registered in the National Registry of Securities and Intermediaries, and in this way acquire a significant share holding of the capital stock, should announce a tender offer addressed to all shareholders of this corporation.

The Superintendency shall regulate the conditions for tender offers in at least the following ways:

The shares considered significant for tender offering.

The rules and terms for computing the indicated share percentage, according to direct or indirect share holdings.

The terms under which the offer shall be irrevocable or may be conditioned, and the guarantees that may be required according to whether the return for service that is offered is in money, issued securities or securities whose issue has not yet been approved by the corporation or entity making the offer. The means for administrative control by the Superintendency, and in general, the procedures for carrying out tender offering.

Restrictions on the activities of the administrative organ of the corporation whose stocks are the object of tender offer.

The structure of possible competing offers.

The rules for pro-rating, if applicable.

The minimum price which the tender offers must use.

Operations exempted in the public interest from this system, and any other extremes that may need to be regulated.

#### Article 37. Impossibility to exercise the right to vote

Whosoever acquires the volume of stocks and reaches the share percentage referred to in the preceding Article, without having made a public offer to buy, shall not be able to exercise his or her right to vote that would be a consequence of the stock acquisition. In addition, any agreements conferred by the shares shall be null and void. The Superintendency shall have the right to carry out the corresponding obstructive actions.

#### Article 38. Impossibility to modify statutes

In addition to what is stated in the above Article, whosoever acquires a volume of stocks or other securities that directly or indirectly confer the

right to underwrite or acquire stocks in a corporation that is registered in the National Registry of Securities and Intermediaries, and that represent more than fifty percent (50%) of the total votes of the members of the issuing corporation, shall not be able to modify the statutes of this corporation except in extreme situations regulated by the Superintendency, unless he or she makes a public offer to buy addressed to the rest of the voting shareholders of the corresponding corporation.

#### Article 39. Submission to rules

Voluntarily made public offers to buy stocks or other securities that directly or indirectly confer the right to underwrite or acquire stocks should be addressed to all the stockholders and are subject to the rules and procedures set forth in this chapter.

#### Article 40. Public offerings of securities

A public offer to sell securities not negotiable in a secondary market shall be considered a public offer in its own behalf or through a third party, by whatever procedures, of securities whose issue, in light of Article 14, is not subject to the requirements in Article 11 or was not made more than two years before the date of public offer. All the provisions in Chapter 1, Title II, of this law for new issues shall be applied to this type of public offer to sell securities.

The above paragraph shall be applicable to the public offer by the issuer or a non-resident third party of securities issued outside the country. The Superintendency may decide on the exceptions that derive from international agreements signed by Costa Rica and information exchange agreements with other foreign stock exchange regulating entities.

#### Article 41. Execution

Stock exchange contracts are those that are entered into stock exchanges through brokerage houses, having as the object of the contract securities that have been accepted for negotiation in stock exchanges. The contracting parties accept the obligations stated in the exchange contracts and the consequences deriving from judiciousness, the law, and regulations and uses of the exchange.

Exchange contracts should be interpreted and executed in good faith. The stock exchanges may declare exchange contracts null and void in accordance with their regulatory provisions.

#### Article 42. Requirements.

The regulations of each stock exchange shall establish the forms, procedures, and terms of callability and settlement of exchange operations. Unless the contracting parties state otherwise, the operations shall be in cash and should be settled within seven working days after completing the contract.

#### Article 43. Operations of the futures market

The operations of the futures market must be convertible on the day stipulated in the contract, and all must have the same date of expiration. The rules for expiration shall be established by the respective stock exchange.

The exchange regulations shall set the margins or coverage required to be deposited by the contracting parties in the exchange, in order to enter into futures contracts and maintain their place. They shall also establish the system of surveillance over the handling of these margins and the requirements that brokerage houses must fulfill in order to participate in futures operations.

#### Article 44. Option trade

Option trade are term contracts in which one of the parties reserves the right to not comply with its obligations or to vary them in some predetermined way through payment of an agreed upon premium, the minimum amount to be fixed in the respective regulation. This right should be exercised within the term before its expiration as set by the regulation.

#### Article 45. Callable benefits

In a term sale of securities certificates, interest, dividends, and other convertible benefits shall be payable to the buyer as soon as the contract is entered into and before its expiration, unless otherwise agreed upon. When the sale is of stock certificates, the voting rights shall correspond to the seller until the certificates are delivered.

#### Article 46. Preferred rights

The rights to options or preferred subscription, inherent in stock certificates sold on terms, correspond to the buyer. If he or she requests in advance as specified in the exchange regulations, the seller should make the rights available to the buyer or exercise them him or herself on behalf of the buyer, if the buyer provides the necessary funds.

In lack of a request from the buyer, the seller should attempt to sell the rights on behalf of the buyer, at the best possible price, through a stockbroker.

#### Article 47. Rights and obligations derived from drawings

If the certificates sold on terms are subject to a drawing for premiums or reimbursements, the rights and obligations of the drawing shall be assumed by the buyer, when the contract is made prior to the day specified for the drawing.

For purposes of the drawing as indicated in the above paragraph, the seller should notify the buyer in writing of the certificate numbers at least one day before the drawing date. Failure to notify shall be interpreted to mean that the certificates have been chosen in the drawing.

If the certificates indicated by the seller were not chosen, he or she shall be free from having to deliver upon expiration other certificates of the same type.

#### Article 48. Application of the rules

The rules in Articles 45, 46, and 47 shall be applicable where pertinent to cash contracts.

#### Article 49. Repurchase agreements

The repurchase agreement is a contract in which the repurchase transfers ownership of securities certificates of a given type at a specific price to



the reporter, and the reporter is obligated to transfer back to the repurchase at the end of an established time period ownership of other certificates of the same type, with the reimbursement of the price, which may be higher or lower as per agreement. This contract is completed upon delivery of the certificates.

Article 50. Certificates given in as repurchase agreements

Accompanying rights and inherent obligations in the certificates given in repurchase agreements shall pertain to the repurchase. Where pertinent the provisions in Articles 45, 46, 47 shall be applied. Unless otherwise agreed upon, the voting rights shall belong to the repurchaser.

Article 51. Termination of effects

If both parties fail to comply with their obligations within the established term, the repurchase agreement shall cease to be in effect and each party shall conserve whatever he or she has received upon completion of the contract.

Article 52. Application of the rules

The norms in this chapter shall apply, where pertinent, to securities represented by means of the Book Entry Securities System, taking into consideration the nature of this figure and the rules established in Title VII of this law.

Article 53. Nature of brokerage houses

Brokerage houses shall be corporations authorized by their corresponding stock exchanges to participate in their exchanges and carry out the activities authorized by this law, in accordance with the requirements established by this law.

Any rejection to authorize the operation of a brokerage house can be appealed before the Superintendency. Operations in stock exchanges should be proposed, carried out and concluded by a brokerage house.

Article 54. Requirements

All brokerage houses must comply with the following requirements:

They should be incorporated as simultaneous creation, according to the relevant norms of the Code of Commerce; their stock and the stock of their corporate members if they are corporations, shall be nominative shares. No private individual or corporation may be a member of more than one brokerage house in the same stock market, whether directly or by proxy.

Their corporate purpose is limited to the activities authorized by this law and its regulations, and their corporate term should be the same as those of their respective stock market, including extensions.

They should have at all times a minimum capital, subscribed and initially paid in cash, of fifty million colones (50,000,000.00), which may be adjusted by the Superintendency with reference to a price index. They should also maintain a minimum ratio of capital proportional to the volume of activity and assumed

risks, as established in the regulations of the Superintendency. They should maintain a guarantee reserve, to be set by the Superintendency according to their volume of activity and assumed risks, for the exclusive purpose of covering the services of stock intermediation and other services rendered to their clients.

None of their directors, managers, or agents should have been found guilty of crimes against property or the public faith, and they should be morally upright with ample qualifications and experience.

They must comply with all other requirements contemplated in this law or established through regulations by the Superintendency.

The authorized brokerage house should begin operating within six months after notification of its authorization; if it fails to do so, the same stock exchange shall cancel the authorization. This authorization is not transferable or taxable, whether directly or indirectly.

#### Article 55. Constitution of corporations

The National Insurance Institute and each of the public banks shall be authorized to form corporations in accordance with the terms in the above Article, for the exclusive purpose of operating their own brokerage house and carry out the activities indicated in Article 56. In addition, they are authorized to form a corporation for administering investment funds and a pension corporation, under the terms of this law and the corresponding terms of Law 7523, July 7th, 1995.

In these cases, the brokerage houses, investment companies, and pension operators should keep their operations and accounting completely separate from the institutions they belong to. This provision is equally applicable to private brokerage houses, with respect to their members and other corporations belonging to the same economic interest group.

The government and public institutions and companies may acquire certificates, make investments and issue stock through any brokerage house, without interfering in the provisions applicable to administrative contracts.

#### Article 56. Activities of brokerage houses

Brokerage houses may carry out the following activities:

Buy and sell securities in the stock exchange on behalf of their clients. They may receive funds from their clients for this purpose, but they must use the funds for that purpose on the same day. If for any reason this is not possible, they should deposit the funds in a special deposit in a financial entity regulated by the General Superintendency of Financial Entities no later than the next working day.

Buy and sell securities in the stock exchange on their own behalf, when these conform to the minimum level of additional capital and other requirements established by regulations for this purpose by the Superintendency.

Obtain credit and extend credit to clients, as long as it is directly related to the buying and selling of securities, including pre-financing of issued stock. For this purpose the brokerage houses must comply with the minimum level of additional capital or additional specific guarantees established by

regulations of the Superintendency.

Offer consultation to clients on investment and stock operations.

Render services of individual portfolio management, in accordance with the regulations of the Superintendency.

Carry out any other activities authorized by the Superintendency through its regulations.

#### Article 57. Impediment

In no case may brokerage houses operate as investment fund or pension fund administrators; they also may not own shares of capital stock in the corporations that administer these funds.

#### Article 58. Obligations

Brokerage houses have the following obligations:

Comply with the provisions of this law and its regulations and conform to the agreements of the Superintendency insofar as they pertain to their respective stock exchange.

Provide the Superintendency and their respective stock exchange all statistical, financial, accounting, legal, or any other kind of information that may be requested at any time and under the terms and conditions indicated by each entity.

Keep the necessary registries, with a clear, precise record of all operations transacted, including quantities, prices, names of contracting parties, and all possible pertinent details of each transaction, in accordance with the relevant provisions in the regulations.

Deliver to their clients copies of transaction notes and certifications of the registration of the operations they have transacted, upon demand.

Allow supervision by the Superintendency and their respective stock exchange of all their operations and activities, as well as unannounced verifications by these entities of their accounting, inventory, audits, priorities of investment orders of clients, and other checks, accountable or otherwise, that are deemed necessary.

Maintain permanently available to the Superintendency and the public their stock involvement and that of their corporate members.

#### Article 59. Responsibility in operations on others' account

In operations on others' account, the brokerage houses shall be held responsible to their clients for delivery of securities and payment of the price.

The brokerage houses shall be equally responsible for fraudulent or negligent actions of their officers, employees, or stockbrokers while carrying out their duties or because of their duties, when these actions are contrary to the law or norms of healthy management and affect the respective exchange or third parties.

To determine the responsibilities indicated in this Article, the brokerage houses must supply certification of its registries of concrete transactions and any other information requested by the respective stock exchange, the

Superintendency or the judicial authority involved. For the purposes of proof, the entries and certifications of registries of the grantees shall be compared with those of the certified broker.

#### Article 60. Stockbrokers

Stockbrokers shall be those individuals representing a brokerage house, who are accredited by the respective stock exchange and carry out stock exchange activities in the name of the brokerage house, in the eyes of its clients and the stock exchange.

The orders received from clients must be completed under responsibility of brokerage houses and their brokers.

Stockbrokers should be recognizably honorable and qualified for their position. They must also comply with the provisions of this law and the regulations of the Superintendency and their respective stock exchange.

#### Article 61. Setting according to yield

The collection, through public offer, of funds, goods, or rights, to be administered on behalf of the investors in a common fund, in which the yield for each investor is a function of the collective yield, may only be carried out by investment companies, as provided for in this Title. Excepted from this is what is stipulated by the Law for the Private System of Supplementary Pensions, No. 7523, of July 7, 1995.

In addition an exception is made for funds administered through trust contracts for banks or entities under the control of the General Superintendency of Financial Entities. Nevertheless, when funds are similar to investment funds regulated by this law or pension or capitalization funds, regulated by Law No. 7523, of July 7, 1995, said funds shall be subject to the norms of regulation and supervision equivalent to those for investment, pension, or capitalization funds, as the case may be, and come under the supervision of the General Superintendency of Financial Entities, in accordance with the regulations of the National Council for the Supervision of the Financial System (Consejo Nacional de Supervisión del Sistema Financiero).

Monetary regulations correspond to the Board of Directors of the Central Bank (Banco Central), according to the Organic Law of this institution.

Nevertheless, the Administrative Council of the Superintendency may set the limits for actions of the Pension Supervisory, the General Supervisory of Financial Entities, and the General Superintendency of Securities.

#### Article 62. Characteristics of investment funds

Investment funds shall be separate equities belonging to a variety of investors. With the assistance of a custodian entity, they shall be administered by administration corporations regulated in this Title and shall be invested as set out in the prospectus, within the limits permitted by this law and the regulations of the Superintendency. Ownership rights to the fund



shall be represented through certificates of participation. For all legal effects, in the handling and administration of an investment fund, the administering corporation is understood to be acting in the name of and on behalf of the investors in that fund.

#### Article 63. Use of terms or expressions

The expressions investment funds, investment corporations, investment fund corporations, corporations for the administration of investment funds, mutual funds, capitalization funds or other equivalents in any language, may only be used by the investment companies regulated in this Title, without affecting what is provided for in Law No. 7523 of July 7, 1995.

#### Article 64. Submission to Costa Rican law

Investment companies, investment funds, and custodian corporations should comply with Costa Rican legislation. The Superintendency shall issue special norms to regulate fund administration contracts between local entities and foreign entities specializing in the management of funds in organized stock markets outside the national territory.

#### Article 65. Corporations empowered to administer funds

Investment companies are corporations or branches of foreign corporations that comply with the requirements dictated by this law and the Code of Commerce, with the sole object to render investment fund administration services, according to this Title.

#### Article 66. Requirements for authorization

The Superintendency shall authorize the operation of investment companies when they fulfill the following requirements:

They must have at all times a minimum capital, subscribed and initially paid in cash, of thirty million colones (c30, 000,000.00), an amount that may be adjusted periodically by the Superintendency, according to circumstances in the market, as established by regulations of the Superintendency.

Their corporate purpose shall be limited to activities authorized by this law and its regulations.

Their statutes shall be adjusted to the provisions of this law and the regulations of the Superintendency.

Their capital stock shall be in nominative stock, as shall be that of all corporate members they may have.

None of their administrators, managers or agents shall have been found guilty of crimes against property or the public faith, and they should all be morally upright with ample qualifications and experience.

Investment companies should begin operation within twelve months after notification of authorization. If they fail to do so, the Superintendency shall cancel the authorization. This authorization is not transferable or taxable, either directly or indirectly.

#### Article 67. Prior authorization by the Superintendency

Any changes in the control of the investment company should first have the authorization of the Superintendency and should be reported in advance to the investors of each fund it administers, to the addresses they have given the

corporation.

In no case may the investment company or the custodian corporation stop their operations without complying with the requirements and procedures for designating substitutes.

If the investment company is substituted, or if there is a change in the control of the corporation in accordance with the regulations of the Superintendency, the investors shall have the right to reimbursement of their investment, without charge for reimbursement commission or any other expenses. The value of their investment shall be calculated, as indicated in this law, to the date of the above-mentioned substitution. This right may only be exercised within one month of the date on which the investors were notified of the substitution or change in control.

The provisions in this Article shall also apply to the entity that offers custodian services for the investment funds.

#### Article 68. Payment for administering funds

The investment companies may only collect a commission as payment for administering investment funds; this commission should be indicated in the prospectus for the fund and may be collected from the equity or the yield of the fund, or both.

In addition, the investment companies may charge investors a fee for depositing and withdrawing from the fund, in proportion to the amount put in or withdrawn.

This should be indicated in the fund prospectus.

The Superintendency shall regulate the methods for calculating commissions and the expenses the funds incur, and how they shall be applied.

#### Article 69. Obligatory provision of information

The investment companies must obligatorily provide true and appropriate information on their situation and that of the funds they administer, in accordance with what the Superintendency requires. In the same way, investors shall have the right to receive from them all necessary information for the making of decisions.

#### Article 70. Free and obligatory delivery of documents

The investment companies should supply a copy of the annual report and published reports to each investors, at no charge, before the investors subscribes to the fund. In addition, they should deliver to each investor at their listed domicile all successive trimester reports and annual minutes published on the fund. These documents shall also be free of charge to the investors.

#### Article 71. Prohibition to carry out the following transactions

Investment companies may not:

Invest from the investment funds they administer in stocks they themselves issue.

Invest their capital in the funds they administer.

Grant credit with from the funds, without detriment to repurchase operation

described in Article 87 of this law, in accordance with the norms of the Superintendency.

Guarantee the investor a specified yield, whether directly or indirectly or through any type of contract. This prohibition extends to the economic interest group to which they belong.

In its regulations the Superintendency may set the conditions for authorizing guaranteed yield funds, when adequate coverage has been shown to exist and therefore there is no market risk involved in obtaining this yield.

Discriminate against investors on the basis of yield.

Hold capital stock in other corporations.

Any other operation that the Superintendency may stipulate in its regulations in order to protect the interests of investors.

#### Article 72. Limitation

The members, directors and employees of an investment company and its economic interest group may not acquire stocks from the funds nor may they sell them their own stocks.

#### Article 73. Responsibility for applying policies

Investment companies shall be held responsible for applying the investment policies indicated in the prospectus for the funds they administer; observance of these is obligatory.

Investment companies shall be held corporately responsible to their investors for damages and losses caused by their directors, employees or persons contracted to render services to the fund, resulting from carrying out or the failure to carry out actions that are prohibited or required, as the case may be, by the prospectus, the provisions of this Title, the Superintendency and its relevant provisions.

#### Article 74. Requirements for operation

The operation of any investment fund shall require prior authorization by the General Superintendency of Securities, which must approve the constitutive documents, their modifications and the rules of operation of the fund. The constitutive documents must contain, at the least, the following:

The name of the fund, which must be accompanied by the phrase "investment fund."

The object of the fund, according to this law.

The names and addresses of the investment company and the custodian corporation.

The regulations for administering the fund, containing at the minimum those which the Superintendency requires, including:

The duration of the fund, which may be unlimited.

The investment policy.

Characteristics of the share certificates and procedures for their issuing and reimbursement.

Norms for managing, administering and presenting the fund.

The manner in which the results and their distribution are determined.

The requirements for modifying the contract and the regulations for

administering the fund, and for the substitution of the investment company and the custodian corporation.

Commissions for administration, subscription and reimbursement.

Once it has been authorized, the fund shall be registered in the National Registry of Securities and Intermediaries.

The Superintendency shall establish information requirements and any other requirements for constituting the funds, for the purpose of protecting the investor.

#### Article 75. Requirements after authorization

Once the fund has been authorized, the investment company must submit a prospectus for each fund to the Superintendency for approval. The prospectus must contain all the information specified in the above Article, at the least. In addition, it must specify where the securities shall be deposited, procedures and terms of redemption, duration of the fund and any information specified in the regulations of the Superintendency.

#### Article 76. Assembly of investors

When a fund is closed, as defined in this law, an assembly of the investors shall be called. The assembly shall be conducted according to the norms of the Code of Commerce with respect to extraordinary general meetings of corporations, and any rules the Superintendency may dictate.

#### Article 77. Representation of shares

The shares of investors in a fund shall be represented by share certificates, also called shares. Each share shall have the same value, conditions and characteristics for the investors. The shares may be issued on demand, without expiration, and may be carried by book entry securities.

The shares must be placed for sale in a public offer, without restrictions on their acquisition by any investor, except those stipulated by this law to prevent concentration of shares in one single person or economic interest group. In no situation may these shares be sold on credit.

In the case of closed funds, the Superintendency shall regulate the appropriate conditions for issuing the shares, under the terms of this law.

#### Article 78. Deposit of securities

The securities of investment funds must be kept deposited in a custodian entity authorized by the Superintendency in accordance with this law and the rules of the Superintendency, in order to safeguard the rights of investors. In addition, the custodian entities may keep and administer both the cash deposits and incoming and outgoing deposits in the funds, in independent accounts for each fund in order to guarantee maximum protection for the rights of the investors.

The Superintendency may dictate the rules for management of cash funds and the credits and debits made in the investment funds by investment companies, as well as special rules, including additional capital requirements, for investment companies that do not have a custodian corporation that performs this service for them and for those investment companies whose custodian



entity belongs to the same financial group. This shall be done in order to guarantee maximum protection for the rights of the investors of each fund and to prevent possible conflicts of interest.

The Superintendency may authorize the custody of investment funds by foreign custodian entities, in exceptional cases and according to the rules it lays out in its regulations.

#### Article 79. Modifications in the investment system

Whenever modifications in the investment system of a fund are needed, in accordance with its prospectus, they must be approved in advance by the Superintendency. If they are approved, the investors should be notified of them, as stipulated in this law and its regulations.

The fund must repurchase the shares of investors who are not in agreement if they so wish, within one month after the notification and under the conditions established in the regulations of the Superintendency, and at no charge for early withdrawal.

In the case of closed funds, the Superintendency will establish the regulations for the procedure that will have to be followed concerning the reimbursement of the shares of the fund, as well as the criteria for appraising such shares.

#### Article 80. Types of Investment

There will be the following types of investment funds:

Open investment funds: those which patrimony is variable and unlimited; the shares held by the public are redeemable directly by the fund and its duration period is indefinite. In these cases, the shares could not be subject to operations different from reimbursement operations.

Close investment funds: those which patrimony is fix; the share participations held by the public are not redeemable directly by the fund, except in those circumstances and procedures included in this legislation.

Close or open financial investment funds: are those having the totality of their assets invested on securities or in other financial instruments representative of financial assets.

Close or open non-financial investment funds: those which main objective is the investment on non-financial assets.

Investment megafunds: those which assets are invested, exclusively, on stock of other investment funds. The Superintendency will issue, according to by-laws, the operating conditions for these funds, the type of fund on which they can invest, as well as the diversification norms, the appraisal and imputation of commissions and the expenses of funds on which investments are made.

Likewise, it could issue norms on any other situation which has not been contemplated on this legislation with relation to megafunds.

The Superintendency could establish and regulate other kinds of investment funds, which will also abide by the dispositions of this title.

#### Article 81. Conditions for close investment funds

Close investment funds could belong term or indefinite. Upon their maturation, the fund must be settled among its contributors, except when there is an

extension agreement among them, according to the procedure indicated in this legislation.

#### Article 82. Stock registration of close funds

Close funds stock must be registered at least on one stock exchange of the country. Likewise, they could carry out subsequent issuance, according to the agreement of the fund investors assembly, seeking the best interest of the investors.

#### Article 83. Repurchase of close investment stock funds

Close investment funds could only repurchase their shares, according to the procedures established by the Superintendency, in the following cases:

For the anticipated settlement of the fund or for repurchasing from investors covered by the recess right established on the second paragraph of article 79.

For its conversion into an open fund

In cases of lack of liquidity on the market and with the approval of the investors assembly, when authorized by the Superintendency.

On all previous cases, there will be a decision made by the majority present in an investors assembly, except for those investors exercising their right to recess, which case their request will be enough.

#### Article 84. Purpose

The funds must be exclusively invested for the benefit of the investors, seeking the necessary balance between safety, profitability diversification and term compatibility, according to its objectives and respecting the fixed limits by this legislation, the statutes of the Superintendency and what has been established by the informational prospectus.

#### Article 85. Forms of Investment.

The investment funds must carry out its investments on the primary market on securities registered on the National Registry of Securities and

Intermediaries or on organized secondary markets authorized by the Superintendency. They could invest on foreign securities, granted these have gone public on an organized stock market according to the norms established by the Superintendency. This should be included on the informational prospectus.

The investment funds could only invest on serial securities already referred to on Paragraph 1 of Article 10, except for that included on the last paragraph of Article 22.

The investment funds could directly participate on auctions if previous notification to the General Superintendency of Securities has been made.

The Superintendency could establish regulations concerning liquidity limits to the funds, according to the nature of its investments.

#### Article 86. Limits on investments

The General Superintendency of Securities will statutorily establish limits on funds investments so as to comply with the objectives established in Article 84.

The funds cannot be under the control of any corporation, except in those cases of non-financial funds. In this case, the Superintendency will establish

different limits on diversification matters.

Article 87. Impediments to chattel mortgage or to establish collateral. Except for that established on articles 88 and 93, the securities or any other assets that integrate the fund could not be chattel mortgaged or become collateral for any purpose. However, they could be the object of a repurchase agreement according to guidelines established by the Superintendency.

#### Article 88. Prohibition

Close investment funds are banned from issuing debt securities or obtaining credit from third parties, except if agreed upon by the investors assembly. The Superintendency could prohibit or establish limits to the indebtedness of investment funds, with the purpose of protecting the interest of the investors. What has been proposed on article 93 is not covered by this prohibition.

#### Article 89. Uniformity and Periodicity

The Superintendency will ensure uniformity on the appraisals of investment funds and their stock as well as in the yield estimates for such funds. Likewise, it will ensure that such appraisals be made at market value. Without detriment of the above, when no market values exist, the Superintendency will establish the general guidelines to carry out these appraisals.

The Superintendency will determine the periodicity of the appraisals of such funds and their stock. In addition, the Superintendency will also determine the periodicity of the estimates for the yields of funds, which should be made public, according to the statutes established by the Superintendency.

#### Article 90. Unitary value of each share

The unitary value of each share will result from dividing the net asset of the fund by the number of issued shares according to what may be statutorily defined by the Superintendency for these particular cases.

#### Article 91. Sale or reimbursement of stock

The sale or direct reimbursement of shares by the investment funds will be made according to the unitary price determined according to the statutes of the Superintendency. However, commissions for the sale or redemption of such securities could be established.

The General Superintendency of Securities could temporarily automatically suspend or at the request of the administering society, the subscription or the reimbursement of stock due to the inability to appraise its value or because of a situation out of its control.

#### Article 92. Reimbursements

The fund must handle reimbursement requests from its investors according to order of submission, procedures, and the terms established by the prospectus and abiding by the present law and the statutes established by the Superintendency. Its payment will always be in cash, however, due to extraordinary market situations and in order to protect the investors, the Superintendency could extraordinarily authorize that refunds be made using fund securities, as well as ordering a temporary suspension of reimbursements and new share subscriptions.



### Article 93. Credit obtention

Open investment funds could obtain credit, loans from loan institutions and non-banking financial intermediaries and of foreign financial entities, with the purpose to cover temporary liquidity needs, up to an amount equivalent to a ten-percent (10%) of its assets. In exceptional cases of lack of liquidity on the market, the Superintendency could raise up to a thirty per cent (30%) of the assets of the fund.

Should the credit come from an entity related to the investment company, this should be communicated to the Superintendency and it should be granted in non-detrimental terms for the fund in relation to other options existing in the market.

### Article 94. Principles

Non-financial investment funds must be subject to the general principles established on this title. However, the Superintendency must establish, through by-laws, different norms to adjust to the special nature of such funds. These norms will include, among others, the dispositions concerning diversification and appraisal criteria, the profile of the fund investors, the obligations before third parties, the establishment of collateral rights on assets or goods that belong to its patrimony and the subscription and reimbursement of shares. Likewise the Superintendency could demand from societies administering funds of this kind, to comply with different requirements of minimum capital and the qualifications of personnel whose responsibility is to administrate the fund.

### Article 95. Real estate investment funds

In the case of real estate investment funds, neither the investors nor people or corporations with links to them or conforming a group of economic interest could lease the real estate that is part of the patrimony of the fund, nor could they have rights of ownership to such goods other than the ones derived from their condition as investors.

The purchase of real estate assets or their representative titles will be prohibited with the purpose of protecting investors from eventual conflicts of interest when these assets belong to partners, directors or employees of the investment company or its group of economic interest.

### Article 96. Reasons for settlement

The following will be considered reasons for settlement:

The expiration of the term determined in its constitutive agreement and its prospectus. Except in the case of an extension.

An agreement, to that effect, from the assembly of investors in the case of close funds.

The cancellation by the Superintendency of the authorization granted to the investment company to operate investment funds, or specifically, such fund. In this case or in case of an eventual bankruptcy or dissolution of the investment company, the Superintendency will administratively intervene the investment company, or if deemed necessary, will temporarily move the



administration of the funds to another investment company. In the case of close investment funds, in addition to the aforementioned measures, the investors of the fund could submit to the consideration of the Superintendency an agreement validated in an assembly through which a new investment company is appointed.

#### Article 97. Other cases for intervention by the Superintendency

Should a fund not redeem the shares in the term defined in its prospectus or default the investment policy, the Superintendency could automatically intervene the investment company or the custodian company if it is deemed necessary, or could temporarily assign the administration or custody of the fund to another investment or custodian company, as it may correspond. In the case of close funds, the Superintendency could also automatically or upon the request of the interested party summon investors in order to determine if the fund is to be settled.

#### Article 98. Cases of bankruptcy or settlement

In the case of bankruptcy or of settlement of an investment company, the assets of each of the administered funds will not integrate the common mass of the estate nor could they be distributed as common property among the partners.

Upon notification of bankruptcy or settlement, the Superintendency will proceed to settle the portfolio, by means of brokerage houses or other entities, and will call upon interested parties to withdraw their proportional part of the funds within the period of a year beginning upon settlement, in accordance to the terms of the settlement. Upon expiration of such term, the funds that have not been withdrawn will be deposited in a bank that belongs to the National Banking System where they obtain the most profitability possible, according to the criterion of the General Superintendency of Securities.

However, should the prescription term defined in the Commercial Code lapse with such funds not being withdrawn, the same will pass to the Superintendency to finance its operations. The disposition included in the previous paragraph will also apply in those cases in which the society is subject to a process of administration by judicial intervention.

#### Article 99. Merging of investment companies

The merging of investment companies will give the participants a right to the reimbursement of their shares, without any deduction of reimbursement commissions or any other expense, at the value of the shares as estimated by the present law, corresponding to the date when the merging took place. This right must be exercised within a month after the date when the investors were notified of the substitution or change of control. In the case of a merging by absorption the right to reimbursement will apply with respect to the society that disappears.

#### Article 100. Taxes and exoneration

Investment funds yields coming from the acquisition of securities that are already subject to the one only tax on interests as referred to in entry c) of article 23 of Law No. 7092 of April 21, 1988, or that are exempt from such

tax, will be exempted of any other tribute different from the tax on available income, as established in the same aforementioned law.

Yields accrued by investment funds coming from securities or other acquired assets and which are not subject to the one only tax on interest mentioned above will be subject to an only and definitive tax, at a rate of five percent (5%). The taxable base will be the total amount of the income or credited yields, cleared, received or made available to the investment fund.

Capital gains generated by the transference, for any title of assets of the fund, will be subject to an only and definitive tax at a rate of five per cent (5%). The taxable base will be the difference between the transference value and the value recorded in accounting books to the date of such transaction. The taxes described in the second and third paragraphs of this article will be estimated using sworn affidavits, the determination and payment made by the investment fund, with a fiscal period of a month according to the following rules:

The sworn affidavit must be submitted within the first ten working days following that one on which the yields were generated or the capital gains were taxed, period on which both tax obligations must be paid.

These taxes must be administrated by the "Dirección General de Tributación Directa". The Executive Power is authorized to regulate such taxes, including the methods technically acceptable for the reappraisal of assets.

The investment funds will be exempt from transference taxes applicable to the acquisition or sale of assets. Likewise, they will not be subject to the tax applied to the assets of corporations, as defined in article 88 of Law No. 7092.

The yields, dividends and capital gains generated by shares of investment funds will be exempt from any tax.

#### Article 101. Norms and internal regulations

The participants on the stock market must respect the norms of conduct established on this chapter.

The stock exchanges must establish internal guidelines including binding norms of conduct for directors, officials, advisors, and employees, as well as for brokerage houses and brokers. The brokerage houses and the investment companies must establish guidelines on the same spirit.

These regulations must develop the principles established on the present title and will be communicated to the Superintendency, which will have a term of thirty calendar days to object them or request modifications. The Superintendency could establish norms on the minimum contents of these regulations and authorize associations of brokerage houses to establish their own as a substitution of the regulations for each brokerage house.

#### Article 102. Handling inside trading information

Those who have any inside trading information must abstain from carrying out

directly or indirectly any type of operation in the market on those securities to which the information refers. Likewise, they must abstain from communicating it to third parties or from recommending operations on such securities.

For the purposes of this law, inside trading information is understood as all concrete information referring to one or various securities or its issuers, that has not been made public and that can influence the values of such securities.

#### Article 103. Access to inside trading information

For the purposes of the present Law and without detriment to the determination carried out for each concrete case non-contemplated on this article, it is understood that the following people will have access to inside trading information concerning the issuers in question:

The members of the administration council, overseers, managers, external or internal auditors, and the secretaries of collegiate entities or entities registered on the National Registry of Securities and Intermediaries. Legal representatives and people with powers of attorney are included in the above.

The stockholders of companies registered on the National Registry of Securities and Intermediaries that hold direct control or control by intermediation of more than ten percent (10%) of the stocks representative of their social patrimony.

The members of the administration council, overseers, managers, external or internal auditors, and the secretaries of collegiate entities that hold more than forty percent (40%) of the stock representative of the social patrimony of companies included in the previous paragraph. Notwithstanding, legal representatives and people with powers of attorney are included in the present norm.

Those who provide independent services to entities or companies previously mentioned and their advisors in general, as well as the managers of any other company or business that has participated, advised or worked for an issuer, in any activity that may promote access to inside trading information.

The managers, members of the Administration and Classification Council and financial analysts of risk rating agencies. Legal representatives and people with powers of attorney are included on this norm.

#### Article 104. Prohibition to acquire securities

The people referred to in the previous paragraph must abstain to carry out, directly or through intermediation, the acquisition of securities of any type issued by the company with which they are associated by means of a position or a any other link for a period of three months beginning with the last transference carried out with respect to any type of securities issued by the same company. Such prohibition also covers the transference and eventual acquisition of any type of securities issued by the company in question.

#### Article 105. Public information

Issuers of securities must inform the public, in the least possible term established by the Superintendency, the existence of factors, facts or



decisions that may have an important impact on the price of their securities. Should the disclosure of information be considered detrimental to legitimate interests, the Superintendency must be informed and it will resolve.

#### Article 106. Client priority

Market participants that receive or execute orders, advise customers concerning investments on securities must give absolute priority to the interest of their clients. Should there exist a conflict of interest among clients, none in particular should be favored.

#### Article 107. Obligatory abstentions

Market participants that receive or execute orders, or advise clients concerning investments on securities must abstain from the following:

Provoke, in their own interest or the interest of third parties an artificial evolution of prices.

Unnecessarily multiply the transactions without benefit to the client.

Take possession of securities or attribute them to the group of their economic interest in cases when their clients have requested them in better or identical conditions.

To favor the sale of their own securities or those of companies of their economic interest group in detriment of the sale of their clients' securities when the latter have ordered to sell the same type of securities in better or identical conditions.

To offer clients advantages, incentives, compensations or any indemnification of any type, in detriment of others or of the transparency of the market. All the above without detriment to the freedom to hire and fix prices.

To act in anticipation, on their behalf or the behalf of other companies of their economic interest group, or to induce actions in a client when the price may be affected by an order coming from another client.

To disseminate false information on securities, their issuers or any other situation that may have an impact on the stock markets.

To use securities whose custody has been assigned to them for non-authorized operations.

#### Article 108. Conduct of participants

Market participants that receive or execute orders from clients or advise them with respect to investments on securities must act carefully and diligently in their operations, carrying them according to strict orders from their clients, or if acting otherwise, using the best norms and market standards. The information that such participants may have from their clients will be absolutely confidential and could not be used in their benefit or the benefit of others, nor for different purposes different from the ones it was requested.

#### Article 109. Information provided to clients

Market participants that receive or execute orders from clients or advise them with respect to investments on securities will provide their clients with all available information when this can be relevant to their decision making. Such



information must be clear, correct, precise, sufficient and timely; in addition, it should indicate involved risks especially when dealing with financial products of high risk.

Likewise, market participants must inform their clients on their economic links or of any other nature, that could compromise their impartiality. The Superintendency will dictate the norms to carry out this disposition.

#### Article 110. Information provided to the Superintendency

The directors, representatives, agents, employees and stock market advisors, employees of brokerage houses, of investment companies and of other figures that may originate in the stock market, as well as stock brokers, must inform the Superintendency, as dictated by its by-laws, of their links, economic or of any other nature that may expose them to situations of conflict of interest.

#### Article 111. Registration of transactions carried out under own' s account

The directors, representatives, agents, employees and advisors to brokerage houses must carry out their personal securities transactions exclusively through the brokerage house they are associated with. The brokerage houses must register such transactions according to the norms that the Superintendency will statutorily establish.

#### Article 112. Special registration of transactions carried out under own' s account

Brokerage houses must carry out a special register including transactions carried out under own' s account and of their group of economic interest in accordance to the regulations that the Superintendency will establish.

When a brokerage house carries out an under own' s account operation with a client, the latter must be informed of such circumstance through a means authorized by the Superintendency.

#### Article 113. Joint responsibility

Brokerage houses, stock brokers, investment companies and other people authorized to subscribe investment funds stock will be jointly responsible for damages and detriment caused to investors when the latter have not been properly warned of the risks of the proposed investments. The Superintendency will statutorily establish the regulations under which such warnings are to be made.

#### Article 114. Regulating norms for conflict of interest

The Superintendency will dictate the necessary norms to regulate conflict of interest among stock market participants and will include at least, the following:

The prohibition of certain operations among companies that belong to the same financial group or the same group of economic interest, applying when it be necessary, the norms established by the By-laws of the Central Bank.

A regime of incompatibilities applicable to officers of overseen entities to prevent the realization of operations or the transfer of information that may cause detriment to investors.

The provision of services, independently of the contractual type used, among

entities of the same group of economic interest.

The guidelines of any other situation that due to conflict of interest may result in detriment to investors.

#### Article 115. Measures of representation

Securities issuance registered on the National Registry of Securities and Intermediaries could be represented by means of book entry securities or through titles. The representation modality must be included in the issuance agreement and must be applied to all securities integrated into the same issuance.

The representation of securities by means of book entry securities is irreversible. The representation by means of titles will be reversible.

The Superintendency could establish, with a general character or for specific securities categories, that their representation by means of the Book Entry Securities System be deemed as a necessary condition for the authorization to be publicly offered.

#### Article 116. Registry regulations

The General Superintendency of Securities will regulate the organization and operation of registries, identification systems and the control of securities represented by means of book entry securities as well as the relations and communications of the entities responsible for such registries with issuers and stock exchanges. Likewise, it should guarantee the truthfulness and accuracy of mechanisms used in collection procedures, clearing, transference and settlement of such securities, protecting at all moments, the interest of the investors, the transparency of the market and the confidence of the investors.

#### Article 117. Accounting registry of securities

The accounting registry of securities represented by means of book entry securities that are registered on the National Registry of Securities and Intermediaries, will be kept by a two level system:

The first level will constitute the only national system for registering book entry securities. It will be established according to the guidelines defined by the Superintendency and will be conformed by the following member entities:

The Central Bank of Costa Rica will be responsible for administrating the registry of State and public enterprises issuance and could delegate, either totally or partially, the administration of such registry on other of the member entities of the Book Entry Securities System. In this case, two representatives appointed by the Board of Directors of the Central Bank must be part of the board of directors of the respective entity. To this effect, the latter must introduce the respective statutory modifications. Likewise, the delegated entity must comply with the rest of the conditions established in the agreement of the Board of Directors of the Central Bank as defined by the delegation.

The depositories authorized by the Superintendency will be responsible for administrating issuance registry of private issuers. To do this, they could offer, in addition, the service of administration and custody of shareholders registry books of such issuers.

The Superintendency will ensure member entities compliance with the standards that guarantee the proper operational integration of the Book entry security system.

The second level will be constituted by the entities associated to the Book Entry Security System that could be all those authorized to provide custody services as well as the settlement members of the National System of Clearing and Settlement of Securities. They have to additionally comply with the special requirements established by the Superintendency to be able to become associates.

No entity's effort to become an associate is to be rejected if previously authorized by the Superintendency.

#### Article 118. Book entry securities

The member entities of the Book Entry Security System will keep the entries corresponding to the totality of the securities represented by means of book entries registered at the National Registry for Securities and Intermediaries. To do this, they will keep two accounts for each associated entity: one for the securities on their own account and another one for the securities on others' account.

The associated entities will keep the entries of individuals or companies that are not authorized to participate as entities associated to the Book Entry Security System. The total amount of the securities on others' account represented by the entries kept by an associated entity will at all times be the exact counterpart of the amount corresponding to securities on other's account that such entity has, according to the previous paragraph, on one of the member entities of the Book Entry Security System.

#### Article 119. Norms for entities of the Book Entry Security System.

The depositories must be previously authorized by the Superintendency, which will approve the nature of its legal figure, its statutes and guidelines prior to its operation. The Superintendency will also approve later modifications and the subscription and transmission of shares for which it will establish criteria to be followed for the appraisal of the stock price.

Concerning the provision of services, they could not discriminate the users of the Book Entry Security System who must have their accounts through the entities associated to the System.

They should guarantee the confidentiality of the identity of the owners of securities, according to the norms of the Superintendency.

They should keep the profitability of their patrimony, so as to comply with the amounts and patrimonial requirements established by the Superintendency and recover from their users the cost of services provided.

The depositories must have a minimum capital according to what statutorily



establishes the Superintendency. The stock exchanges could participate up to a forty percent (40%) of the capital of a depository. Should there be several stock exchanges, such percentage will be distributed in equal parts, except when a stock exchange decides to have a lesser participation. The rest of the capital should be proportionally distributed among the associated entities that use the services of the respective depository. For the effects of estimating the share participation, indirect share participations will be recorded, in the way that the statutes of the Superintendency may render correct.

#### Article 120. Grounds for civil responsibility

The lack of good practices on registrations, the inaccuracies and delays, and in general the non-observance of norms of organization and operation of the registries and identification systems, as well as the control of the securities represented by means of book entry securities will be grounds for civil responsibility on the member or associated entity to the Book Entry Security System, as it may be the case, before those that may result detrimentally affected. The aforesaid without detriment to disciplinary or penal sanctions that may be applicable.

#### Article 121. Agreement to issue securities

Every issuance of securities represented by means of book entry securities must be agreed upon by the board of directors or by the investors assembly of the issuing company, according to the case and abiding by its statutes. The agreement must include the precise indication of the amount and the conditions of issuance, as well as other requirements that the Superintendency may statutorily establish. The corresponding agreement must be registered on National Registry of Securities and Intermediaries. In the case of the State and public enterprises, the amount and other issuance conditions will be indicated in a summary that must be published in the official paper "La Gaceta", without detriment of other laws that may be applicable.

#### Article 122. Constitution of securities

The securities represented by means of book entries will be constituted in virtue of their inscription on the corresponding accounting registry. The subscribers of such securities will have the right to request; free of charge, the corresponding inscriptions, in those cases when the representation by means of credit instruments is transferred to a representation by means of book entry securities. The Superintendency will dictate the necessary statutory dispositions to guarantee the fungibility of the securities represented by means of entries in the Book Entry Security System, for the effects of clearing and settlement.

#### Article 123. Transmission of securities

The transmission of securities represented by book entry securities will take place by inscription on the corresponding accounting registry. The inscription of the transmission in favor of the acquirer will produce the same effect of the title tradition. Member entities and those associated to the National Book Entry Security System must keep logbooks and other probatory documents in



relation to the inscriptions carried under this law, according to the dispositions established by the Superintendency.

The transmission will be opposable to third parties once the inscription has taken place.

A third party that acquires, under onerous title, securities represented by means of book entry securities on the account of a person that according to entries in the accounting registry appears legitimized to transmit them, will not be subject to vindication, unless there has been intent to deceit or *lata culpa*.

The issuing entity could only oppose, before an acquirer of securities represented by means of book entry securities who is acting in good faith, exceptions originating on the inscription and content of the issuance agreement in those terms established on article 121. It could also have opposed the case of securities that could be represented by means of credit instruments, in this case to the extent that it be rationally possible given the immaterial nature of the securities represented by means of book entry securities.

The constitution of any kind of lien on securities represented by means of book entry securities must be inscribed in the corresponding account. The inscription of property pledged on the corresponding account is equivalent to the transference of possession of the title.

The constitution of the lien will be opposable to third parties from the moment of its inscription.

#### Article 124. Title ownership

The person appearing as legitimate on the entries of the accounting registry of an entity associated to the Book Entry Security System is presumed to be legitimate owner, and as such, could demand on his behalf the services and payments granted by ownership of the security represented by means of the Book Entry Security System.

The issuing entity that in good faith and without *lata culpa* provides services and payments in favor of someone appearing as legitimate, will be free of responsibility even if the latter may not be the owner of the security. For the transmission and the exercise of the rights corresponding to the owner, prior inscription on the respective account registry is necessary.

#### Article 125. Accreditation by means of probatory documents

The legitimation for the exercise of rights deriving from the securities represented by means of book entry securities could be credited by presenting deposit probatory documents which will be issued by the entities associated to the Book entry security system, in accordance with their own accounting records. Such probatory records will not confer more rights than those related to the legitimation and will not be negotiable. Those disposition acts contained in these probatory documents will be deemed invalid. Such conditions will be indicated on the respective voucher.

#### Article 126. Settlement procedures

The settlement of operations of organized stock markets must be carried out through the System of Clearing and Settlement of Securities, which will be formed by the stock exchanges and the clearing and settlement companies.

#### Article 127. Requirements for clearing and settlement companies

The clearing and settlement companies must comply with the following requirements:

Must be authorized by the Superintendency, which will approve the constitution, statutes and bylaws prior to their operation, as well as modifications, subscriptions and share transmission. Capital increases and reductions must be authorized by the Superintendency. The latter will establish via statutes the way for this to be carried out, as well as the criteria to be used in the appraisal of the price of shares.

Must have a minimum capital, in accordance to what statutorily establishes the Superintendency. The capital of every clearing and settlement company must at least belong in a thirty percent (30%), but not more than fifty percent (50%) to the stock markets. Should there be several stock exchanges, such percentage will be distributed in equal parts, except when a given stock exchange decides to have lesser share participation. The rest of the capital must be distributed among the settlement members and just must be adjusted according to their settlement volumes, as the Superintendency may statutorily establish. In any case, none could participate in more than fifteen percent (15%) of the social patrimony. To estimate share participation, all indirect participation will be kept in accounting records in the way that is statutorily established by the Superintendency.

Must establish the parameters to be followed by settlement members which must consider at least the criteria of average transaction volume, patrimonial level, available liquid collateral, and other that statutorily establishes the Superintendency.

Do not discriminate, in the provision of services, those users of the System that are not share holders of the company who will carry out their operations by means of accounts on their name in settlement members.

To keep the profitability of their patrimony in such manner as to comply with amounts and patrimonial requirements fixed by the Superintendency and to recover from their users the cost of services provided.

All other requirements established by the Superintendency leading to guarantee the continuity, safety and solvency of the System.

The stock exchanges that provide clearing and settlement services must comply, when applicable, with the previous requirements and other dispositions of the present chapter, according to what statutorily establishes the Superintendency.

#### Article 128. Settlement members and share holders

Stock exchanges, banks and other public enterprises that meet the special requirements set forth to such effects by the Superintendency could be settlement members and share holders of clearing and settlement companies.

The Superintendency could authorize, and in such case, set the statutes for

the settlement of operations of markets derivative by means of companies and systems different from those foreseen in the present chapter.

#### Article 129. Generalization of the Book entry security system

The System of Clearing and Settlement of Securities must guarantee the generalization of the Book Entry Security System, except for those exceptions authorized by the Superintendency in virtue of market circumstances or the particular nature of certain securities.

#### Article 130. Dispositions of the system

The System of Clearing and Settlement of Securities will follow the principles of universality, delivery upon payments, objectivization of settlement date, delivery assurance and financial neutrality. These principles become clear in the following dispositions:

The system will be integrated and will admit the least number of specialties according to the different categories of securities. All stock operations will be settled through the system.

The transference of securities and of cash resulting from the settlement will be carried out using the system of simultaneous mode.

The settlement corresponding to each stock exchange session will take place on a previously determined number of days. The time between the sessions and the settlement dates for each type of operation transacted in such sessions will always be the same and the shortest possible.

The system will have the mechanisms that will enable it, without incurring in any risk for its users, to assure that creditor settlement members can have the securities or cash on the date referred to in the previous entry. To do this, it will proceed to borrow or purchase the corresponding securities.

These mechanisms, as well as the type of securities borrowing agreements must be regulated by the System subject to the approval of the Superintendency.

The System of Clearing and Settlement of Securities will be neutral in financial terms. Charges and payments made on the cash account that each settlement member keeps at the Central Bank of Costa Rica or the bank designated for the fund settlement must be done at the value of the same day; in this way, the resulting balance with the same value will be available in any of the respective accounts of such bank.

The System of clearing and settlement must establish procedures to guarantee payments in case of insufficient funds in the corresponding accounts, and charge the collateral that the Superintendency statutorily may determine.

#### Article 131. Technical and operational compatibility

The Superintendency will assure the existence of technical and operational compatibility among the entities that conform the System of Clearing and Settlement. In order to achieve the integration of the System, the Superintendency must produce bylaws for the operation of the System, according to the principles established in the previous article.

#### Article 132. Regime for the operation of the system

The Superintendency must regulate, in all cases not contemplated on the



present law, the regime of the operation of the system, as well as the services that it provides.

In particular, the Superintendency could establish the necessary norms to enable the entities that participate on clearing and settlement companies to be able to become custodians of securities or to carry out individualized accounts corresponding to the securities of other non-participating entities. The Superintendency could demand from the participating entities in the System any information deemed necessary to supervise the operation of the stock exchange.

#### Article 133. Authorization to depositories

Depositories that comply with the requirements set forth for compensation and settlement companies can be authorized by the Superintendency to provide the service of clearing and settlement, on the terms established by the present chapter.

#### Article 134. Authorized entities

Securities custody services and the offer of this service can only be given by companies called securities depositories previously authorized by the Superintendency and created with the sole purpose of providing services authorized by this law. Brokerage houses and entities under the supervision of the Superintendency can also provide this service. The custody service may include management of equity rights related to the custody of securities.

Public institutions can use custody and administration services provided by any of the entities authorized by the Superintendency subject to the provisions applicable in the area of administrative contracting.

The Superintendency shall supervise, determine prudential regulations and sanction the entities above in terms of their securities custody activities. If dealing with entities supervised by the General Superintendency of financial entities, the Superintendency should determine the necessary coordination mechanisms so that it is the first to request and distribute information from these entities regarding securities custody services.

The authorization to operate as a securities depository granted by the Superintendency cannot be transferred and it obligates to initiate custody activities in a one year term maximum as of its authorization. Otherwise, the authorization shall expire.

#### Article 135. Movements of securities

Securities custodian entities should meet the regulations determined by the Superintendency to facilitate the movement of securities among them according to the investors' needs.

#### Article 136. Custody by-laws

The Superintendency should establish through by-laws, the obligations, responsibilities and other requisites in order to provide the service as well as the provisions related to the securities custody activities. These regulations should at all times abide by the principles established in this law.



#### Article 137. Creation of deposits

Deposits in custodian entities will be created by means of the delivery of documents or by recording the entry made on the Book Entry Security System. Securities deposited in the same custodian entity may be transferred from one account to another and the corresponding accounting practice according to the dispositions in this law and the ones issued by the Superintendency for this matter without requiring the delivery of documents nor the certification of title endorsement.

In the case of “to the order of” and nominative stock deposits, these should be endorsed in administration and given to the corresponding entity that safekeeps them. The sole objective of this endorsement is to justify holding the security and giving the custody agency the power to exercise the rights derived from these securities according to the dispositions in this chapter.

#### Article 138. Certificate issues

Securities custodian entities should issue non-negotiable certificates to the depositors on the deposited documents, which will demonstrate their ownership. In the case of nominative stock, these certificates shall be used to register in the issuer’s record, to credit the right to attend meetings and in general to exercise legal or paralegal rights derived from the stock. In the case of account entries, the custodian entity should observe the corresponding matters indicated in this law.

#### Article 139. Return of stock, securities or documents

Upon concluding the deposit, the custodian entity is obligated to return the stock, securities or documents from the same issuer, the same kind and the same characteristics that were deposited to the depositor.

When nominative or “to the order of” documents are no longer deposited, the effects of administrative endorsement shall cease. The custody entity should endorse them without the liability of the depositor requesting the return. Securities are subject to the general regime determined by mercantile legislation in what it matters.

Deposits created in the custodian entity will always be made to the name of the depositor. In all cases two accounts will be opened, one that corresponds to the securities delivered by the depositor for his own account and another for the securities deposited by the depositor for third parties.

#### Article 140. Rights and fees

If the stock deposited was subject to drawings to grant prizes or reimbursements, the rights and fees derived from the withdrawal should correspond to the depositor. In this case, the regulations in the second and thereafter paragraphs under article 37 should apply. The depositors should also be subject this same regulation regarding his clients.

#### Article 141. Genuineness of the securities and validity of the transactions

The depositor should be responsible for the genuineness of the securities deposited and the validity of the preceding transactions. Securities custodian entities will not be responsible for the defects, legitimacy or invalidity of

the securities or transactions from which such documents originate. The custodian entities will be responsible for the custody and due conservation of titles, securities or documents that have been formally transferred to them; they will be authorized to keep them in their own premises, or in any other institution without detriment to their responsibility.

#### Article 142. Asset stock

Securities deposited in the custodian entities will not be part of the asset stock in case of bankruptcy or insolvency of the entity in custody or when the stock had been deposited for third parties.

#### Article 143. Issue of mortgage debenture

Custodian entities can issue mortgage debentures according to the principles of this law and the provisions determined in the by-laws by the Superintendency.

#### Article 144. Rating companies

Rating corporations are companies whose exclusive legal purpose is to rate risk of the securities registered in the National Securities and Intermediation Registry and supplementary activities and are statutorily authorized by the General Superintendency for Securities. They should add to their name the legend "risk rating" .

All debt securities issues in series and registered at the National Registry of Securities and Intermediaries shall be subject to risk rating by such an entity according to the regulations determined by the Superintendency. State securities issues and non-banking public institutions issues are exempt from this regulation.

#### Article 145. Evaluation methodology

Evaluation methodologies used by rating agencies may be evaluated by the Superintendency to determine their market applicability. Nevertheless, the methodology is strictly confidential and cannot be revealed to third parties by any officer of the rating agency or by the Superintendency.

#### Article 146. Incompetence regarding securities classification

Rating agencies cannot classify securities issued by related companies or by those with which they form an economic interest group or maintain control or dependence relationships. It cannot own, directly nor through any other person, securities or stock issued by rating companies.

#### Article 147. Risk rating

Risk rating is under the responsibility of a council or committee from the rating company. The discussions and agreements of the rating committee regarding each classification will be included as part of the minutes in books authorized by the Superintendency and that shall be signed by all participants to the corresponding meeting, including by the committee member that disagrees and exempts his vote. The opinion of the rating council is not a recommendation to invest nor an endorsement nor an issue guarantee, but the rating council members are jointly responsible with the rating company when guilt or fraud is verified in their opinions or classifications.

#### Article 148. Inside Trading Information

Rating agencies, their directors, rating council members, administrators, officers and employees should be confidential about information of companies they rate and that is relevant for the investors' decisions.

#### Article 149. Responsibilities of the Superintendency

The Superintendency, aside from authorizing, surveilling, supervising rating agencies and other functions granted by other articles in this law or its by-laws, shall be responsible for:

Authorizing the functioning of this type of companies and for this purpose it shall determine the requisites and procedures that need to be met,

Approving the by-laws and modifications before their final registration before the Office of the Public Registry.

Authorizing the by-laws and modifications.

Ordering these companies to publish information on their ratings under the conditions and terms that better help to meet the objectives of the risk rating company.

Suspending or definitely canceling the authorization referred to in entry a) or applying the sanctions determined by this law when it verifies that the risk rater has stopped meeting the requisites demanded by the law or by the general provisions established by the Superintendency. The seriousness of the misconduct is to be taken into account.

#### Article 150. Obligation to inform.

With the exceptions in the law, the Superintendency may order securities issuers and any other stock market related entity to immediately advise the general public through reasonable and adequate means determined by the Superintendency, about any events or information that it deems appropriate for the investing public and which diffusion is necessary to guarantee market transparency. If the summoned entity unjustifiably rejects providing the required publication, the Superintendency can directly do it on the company's behalf and can certify, as a deed, the cost of the publications to proceed with their recovery, without detriment to the corresponding sanctions to the transgressor.

#### Article 151. Exchange of information

The Superintendency may exchange information with similar supervisory bodies from other countries as long as there is reciprocity and in the case of confidential information, the corresponding supervisory body shall be subject to the prohibition of spreading that information, equivalent to those indicated under this law.

#### Article 152. Authorization for advertising

The Superintendency will determine the cases when advertising of the activities contemplated in this law should be subject to authorization or any other administrative control modality. For this purpose, it should draft the necessary by-laws. If the supervised entities fail to meet these by-laws, the Superintendency may order the cease or rectification of the advertising



through proportionate and adequate means it shall determine according to each case.

#### Article 153. Customer service

The Superintendency should open an office for customers requesting information or advice regarding their rights and legal means to exercise or protect them as well as to receive complaints regarding its area of expertise.

#### Article 154. Preventive or bankrupt proceedings

In preventive or bankruptcy proceedings of issuing companies registered in the National Registry of Securities and Intermediaries, the Superintendency has the power to participate as an interested party and exercise all acceptable resources within the process to defend the investors' interests.

Due process should be observed in all those proceedings leading to the imposition of sanctions and precautionary measures as set forth in Book II of the General Act of Public Administration.

#### Article 155. Precautionary measures

The General Superintendency of Securities, in case of serious disorder in the market or to avoid damages that are impossible or difficult to repair, or when it deems that a crime is going to be committed, or in other cases foreseen in this law, it may order the following precautionary measures for a maximum term of two months and according to the circumstances in each case:

Temporary suspension of the brokerage house stock quotes

Temporary suspension of the trading of specific stock -at the exchange or over the counter

Temporary exclusion of the trading of specific stock

Provisional closure of the establishment

Suspension of the advertising or propaganda made against the provisions of article 13 of this law.

#### Article 156. Intervention process

The National Supervisory Council of the General Securities Financial System may order, by means of a founded resolution, the intervention of a supervised entity under any of the circumstances determined in points ii) through viii) of entry d) in article 136 of the Organic Law of the Central Bank of Costa Rica No. 7558 of November 3, 1995.

In such case, the regulations of intervention in articles 139 and 140 of this law shall apply.

This does not apply to issuers.

#### Article 157. Very serious infringements

The following entities shall incur in very serious infringements:

Stock exchanges, brokerage houses, investment companies that perform activities out of the legal purpose authorized to them and they shall be sanctioned according to the provisions in entry 4) of article 158 of this law.

The company in charge of the Clearing and Settlement System for Securities or the company in charge of the Central Register for the Book Entry Security System that perform activities outside of the legal purpose authorized shall



be sanctioned according to the provisions in entry 2) of article 158 of this law.

The exchanges or rector entities from other organized markets that accept tradeable securities without the due verification of the compliance of the requisites established in this law and its regulations shall be sanctioned according to the provisions in entry 3) of article 158 of this law.

The exchanges or rector entities of other organized markets that suspend or exclude issuers, brokerage houses, agents or any participant arbitrarily from the trading of securities without having filed the causes indicated in this law or its by-laws shall be sanctioned according to the provisions in entry 2) of article 158 of this law.

The exchanges or rector entities of other organized markets, the company in charge of the System of Clearing and Settlement of Securities or the company in charge of the Central Registry for the Book Entry Security System that fail to meet, do not enforce the by-laws determined by them or the Superintendency or fail to obey the orders or guidelines and that with this affect the correction or transparency of the market price make up shall be sanctioned according to the provisions in entry 2) of article 158 of this law.

Authorized brokerage houses that can only operate on others' account that acquire or transfer securities on their own account, brokerage houses or brokers that fail to meet the obligations determined in articles 109 or 112 of this law shall be sanctioned according to the provisions in entry 3) of article 158 of this law.

Stock exchanges, brokerage houses, investment companies, custodian entities or entities that operate under the clearing and settlement services that do not have the accounting or legally demanded records or that carry essential infringements or irregularities that make it difficult to get to know the equity or financial situation of the entity or operations in which they participate shall be sanctioned according to the provisions in entry 2) of article 158 of this law.

The company in charge of the Central Registry of the Book Entry Security System or the entities in charge of accounting records that manage them with delays, inexactness or any other substantial irregularities shall be sanctioned according to the provisions in entry 2) of article 158 of this law.

Entities operating under the System of Clearing and Settlement of Securities that fail to meet the norms regulating their relationships with the central records and with the Central Registry for the Book Entry Security System shall be sanctioned according to the provisions in entry 4) of article 158 of this law.

Brokerage houses that do not issue or that, although being legally required to do so, do not give their clients the documents that credit the execution of operations performed in the organized markets or that issue them with false or inexact information shall be sanctioned according to the provisions in entry 3) of article 158 of this law.

Individuals or corporations that perform practices with the intention to hinder the free price make up in the stock market shall be sanctioned according to the provisions in entries 1) or 2) of article 158 of this law, the higher one shall be applied to corporations and the higher of 1) or 3) of the same article for individuals.

Stock exchanges, brokerage houses, investment companies, custodian entities, entities operating under the System of Clearing and Settlement of Securities or the company in charge of the Central Registry for the Book Entry Security System that reduce their equity below eighty percent (80%) of the legal minimum or the minimum required by the regulations for a period of at least six consecutive months shall be sanctioned according to the provisions in entry 2) of article 158 of this law.

Entities subject to the supervision of the Superintendency that fail to meet the obligation of submitting themselves to external audits under the terms in entry f) of article 5 of this law shall be sanctioned according to the provisions in entry 4) of article 158 of this law.

Individuals and corporations who issue securities without authorization, whenever the authorization is mandatory, who do not follow the basic terms established in the authorization, who do not comply previously with the mandatory requirements established in this law, or who place an issue without taking into consideration the basic terms previously established and authorized will be sanctioned according to the provisions in subsection 4), article 158, of this law.

Any individual or corporation who acting on own's account or through an intermediary, commits fraudulent actions with the purpose of obtaining a result that would imply at least a serious wrong doing will be sanctioned according to the provisions in subsection 3), article 158, of this law if it is an individual or the provisions in subsection 2) if it is a corporation.

Any individual or corporation that mediates in or performs security operations that imply a security ownership transfer simulation will be sanctioned according to the provisions in entry 4), article 158, of this law.

The supervised institutions that refuse to be controlled by duly authorized Superintendency officials will be sanctioned according to the provisions in entry 2), article 158, of this law.

The companies or professionals who conduct a defective or essentially irregular external audit in institutions subject to Superintendency control that prevent from knowing the patrimonial or financial status of the audited institution or who do not comply with the accounting standards established in entry f), article 5 of this law, will no longer be able to conduct external audits in institutions controlled by the Superintendency. The supervised institution will be sanctioned according to the provisions in subsection 2), article 158, of this law.

The investment companies or custodian entities that invest in assets different from those legally authorized will be sanctioned according to entry 2), article 158, of this law.

The investment companies or custodian entities that do not comply with the provisions in articles 85, 87, or 88 of this law will be sanctioned according to the provisions in entry 4), article 158, of this law.

The investment companies or custodian entities that purchase and sale their own holdings or issue and refund fund holdings, thus breaching the limits or terms imposed by this law and its regulations or the contents in the prospectus regarding the investment fund will be sanctioned according to the provisions in subsection 4), article 158, of this law.

The investment companies or custodian entities that perform operations against what article 72 of this law provides for will be sanctioned according to the provisions in entry 3), article 158, of this law.

The investment companies or custodian entities that do not comply with the obligations or limits indicated in article 66 of this law, after having been authorized, will be sanctioned according to the provisions in entry 4), article 158, of this law.

The investment companies or custodian entities that do not comply with the joint liability principle established in the second paragraph of article 73 of this law will be sanctioned according to the provisions in entry 2), article 158, of this law.

The investment companies or custodian entities that substantially change the contents of the prospectus without meeting the requirements established in this law and its regulations will be sanctioned according to the provisions in entry 2), article 158, of this law.

Individuals and corporations who do not comply with any of the obligations or prohibitions established in articles 13, 38, or 57, who perform activities different from the legally authorized or regulated purpose will be sanctioned according to the provisions in entry 4), article 158, of this law.

Individuals or corporations that do not comply with any of the requirements established in articles 54 and 55 of this law will be sanctioned according to the provisions in entry 4), article 158, of this law.

The brokerage houses that perform activities different from those indicated in article 56 of this law will be sanctioned according to the provisions in entry 2), article 158, of this law.

Individuals or corporations that do not comply with the obligations provided for in article 59 of this law or who do not comply with the prohibition to discriminate against the investors provided for in article 12 of this law will be sanctioned according to the provisions in entry 2), article 158, of this law.

The individuals or corporations that do not comply, respectively, with any of the obligations or prohibitions established in articles 34; 35; 105; 106; subsections a), b), c), d), e), and f) of article 107; 108; 146; and 148 will be sanctioned according to the provisions in subsection 3), article 158, of this law.

Individuals or corporations that do not comply, respectively, with any of the



obligations or prohibitions established in articles 102; 104; entries g) and h) of article 107; and 37 will be sanctioned according to the provisions in subsections 1) and 2), article 158, of this law, whatever is the longest if it is a corporation, and entries 1) and 3) if it is an individual.

#### Article 158. Very serious infringements

The sanctions for very serious infringements will be:

A fine equal to an amount five times the capital benefit obtained as a direct result of the violation

A fine equal to five percent (5%) of the capital of the company.

A fine equal to two hundred minimum salaries as determined by Law No. 7337 of May 5, 1993.

A five-year suspension of the activities that the transgressor is allowed to perform in the stock market.

Revocation of the authorization to place securities over the counter.

Revocation of the authorization to operate in the stock market.

#### Article 159. Serious infringements

The following will incur in a serious infringement:

Individuals or corporations that do not submit to the Superintendency or to the stock market the documents that have been requested provided that they have been notified in writing of their delay. They will be sanctioned according to the provisions in entry 2) of article 160 of this law.

The brokerage houses that fail to publish or make known their commission rates or that charge commissions higher than those published will be sanctioned according to the provisions in entry 2) of article 160 of this law.

The stock markets, brokerage houses, investment companies, custodian entities, or institutions that belong to the Clearing and Settlement System that decrease their capital to levels below eighty percent (80%) of the required legal or regulated minimum for more than two months and no less than six months will be sanctioned according to the provisions in entry 3) of article 160 of this law.

The entities authorized to legally transfer or carry out securities purchase and sale orders in an organized stock market that unjustifiably and repeatedly delay when performing these activities will be sanctioned according to the provisions in entry 2) of article 160 of this law.

The investment companies that violate the provisions in entry f), article 71, of this law will be sanctioned according to the provisions in entry 5) of article 160 of this law.

The supervised entities that carry out advertising that goes against the provisions established by the Superintendency under the present law and its regulations will be sanctioned according to the provisions in entry 5) article 160 of this law.

The entities that habitually carry out activities related to the stock market and that do not comply with the mandatory regulations provided for in this law regarding information provided to their clients, as long as it is not considered a very serious infringements, will be sanctioned according to the



provisions in entry 6) of article 160 of this law.

The authorized individuals or corporations that do not comply with the client interest priority principle according to article 106 and entries c) and d) or article 107 of this law, as long as it is an isolated or occasional incident, will be sanctioned according to the provisions in entry 4) article 160 of this law.

The authorized individuals or corporations that do not comply with the standards dictated by the Superintendency that have the purpose of regulating conflicts of interests among the participants in the stock markets according to article 114 of this law, will be sanctioned according to the provisions in entry 4) article 160 of this law.

The individuals or corporations that do not comply with the obligations and prohibitions provided for in entries 1), 4), 5), 9), 18), 27), and 28) of article 157, when it is an isolated or occasional incident, will be sanctioned according to the provisions in entry 6) of article 160 of this law.

The stock exchanges, brokerage houses, investment companies or companies that provide custodian services that delay more than two months to keep their accounting books and mandatory records up to date will be sanctioned according to the provisions in entry 5 or article 160 of this law.

The stock markets that do not comply with the investment limits established by the Superintendency according to the provisions of article 33 of this law will be sanctioned according to the provisions in entry 3) article 160 of this law.

The individuals or corporations that conduct defective or irregular external audits in institutions subject to Superintendency supervision and which do not comply with the accounting standards established according to entry f) of article 5 of this law, whenever they may be deemed as not very serious infringements. The responsibility of such breach will fall upon both the auditing entity and the audited entity subject to the supervision of the Superintendency and will be sanctioned according to the provisions in entry 6) of article 160 should operations had not began.

The authorized individuals or corporations that do not follow substantially the accounting standards according to subsection f), article 5, of this law will be sanctioned according to the provisions in entry 6) article 160 of this law.

Investment companies or custodian entities that do not comply with articles 64, 71 entry d) or article 84 of this law will be sanctioned according to the provisions in entry 3) article 160 of this law.

The individuals or corporations that do not comply with the obligations provided for in articles 23 and 24 of this law will be sanctioned according to the provisions in entry 4) article 160 of this law.

The investment companies or custodian entities that fail to keep their investors informed, as required to do so in article 69 of this law, will be sanctioned according to the provisions in entry 5, article 160 of this law.

The investment companies or custodian entities that do not comply with the

investment limits established in article 86 of this law will be sanctioned according to the provisions in entry 3) of article 160 of this law.

The investment companies or custodian entities that do not comply with their obligation to keep their investment fund assets deposited in the custodian entities as established by this law will be sanctioned according to the provisions in entry 6) of article 160 of this law.

The investment companies or custodian entities that charge commissions violating the regulations established in this law and its regulations or violating the amounts indicated in the respective investment fund prospectus will be sanctioned according to the provisions of entry 3) article 160 of this law.

The investment companies or custodian entities that violate articles 64, 71 entry d) or article 84 of this law will be sanctioned according to the provisions in entry 5) of article 160 of this law.

Article 160. Sanctions for serious infringements

The sanctions for serious infringements will be:

Public reprimand that will be published in "La Gaceta" and on a local newspaper.

A fine equal to three times the amount of the capital benefit obtained as a direct result of the violation.

A fine equal to two percent (2%) of the company's capital.

A fine equal to one hundred times the minimum salary as determined by Law No. 7337 of May 5, 1993.

5. A one-year, suspension or limitation of the type or volume of the operations or activities that the transgressor may perform in the stock market.

A one-year suspension of his or her membership in the corresponding organized market.

Article 161. Minor infringements

Any acts or omissions committed by natural or corporate individuals subject to the control of the Superintendency and of the stock exchanges that violate the provisions of this law or its regulations and which are not typified as serious or very serious infringements as established in the above articles will be considered minor infringements according to the provisions of this law.

Article 162. Sanctions for minor infringements

The individuals or corporations who commit a minor infringement will be sanctioned, according to the nature of the infringement, by:

Private admonition which consists of a written notice.

A fine equal to the amount of twenty times the minimum salary as established by Law No. 7337 of May 5, 1993.

Article 163. Additional sanctions

Besides the sanctioning regulations provided for by this law, the following cases will also be sanctioned:

Individuals authorized to work as brokers or a corporationsal whose fraudulent

or criminal liability was determined when sanctioning an institution will be sanctioned by:

Private admonition in case of a minor contravention.

Public admonition in case of a serious contravention.

A fine equal to two hundred times the minimum salary as determined by Law No. 7337 of May 5, 1993, in case of a very serious infringement.

A member of the board of directors, official, or representative of an institution subject to control by the Superintendency will be sanctioned by:

A one-year suspension from his or her post in case of serious infringements.

A five-year separation from his or her post and prohibition to work in administrative or managerial positions in institutions subject to the control of the Superintendency in case of very serious infringements.

Article 164. Criteria for sanctioning

To impose the sanctions provided for in this title, the Superintendency or, in lieu of this, the stock exchanges, will take the following assessment criteria into consideration:

- a) Seriousness of the contravention
- b) Threat or damage caused
- c) Signs of premeditation
- d) Ability to pay
- e) Duration of misconduct
- f) Recurrence

Article 165. Sanction impositions by stock markets

The stock exchanges may impose on the brokerage houses and brokers that operate in it the sanctions provided for in this title. For this purpose, they will follow a procedure equivalent to the one indicated in the title. When a stock exchange starts a sanctioning process, it must immediately inform the Superintendency following the procedures previously established by the latter. The resolution that initiates a procedure and the stock exchange final decision may be appealed before the Superintendency, which must intervene within three working days following the notification. People who have been sanctioned as well as any other individuals or corporations that have a legitimate interest in having the ruling modified, whether it is sanctioning or not, may file an appeal.

The competency indicated in the previous paragraph neither excludes nor limits in any way the competencies of the Superintendency to start an investigation process or to impose sanctions on the stock exchange, brokerage houses, and brokers. In particular, the Superintendency has the obligation to execute controls and impose the sanctions it may find necessary when the stock exchange and or brokerage houses do not comply with the minimum capital regulations and other reasonable control standards.

When a stock exchange has initiated a process, the Superintendency may take over the direction of the process at any time by simply sending a written notice to the corresponding stock exchange and parties. In this case, the



stock exchange will submit the complete file to the Superintendency within the term to be determined by the Superintendency. As of the takeover, the Superintendency will dictate process actions and the final ruling, which may be appealed within the five working days following the notification. When the Superintendency takes over a case that is ready for final ruling, it may order evidence to make a better decision.

#### Article 166. Prohibition to disclose information

Except for the cases provided for in this law and its regulations regarding the disclosure of material events to the investors or except by court order, it is prohibited for members of the boards of directors, officials, representatives, and consultants to the Superintendency to disclose information related to supervised subjects and stock market transactions known to them because of their commission. This prohibition will remain even when these people stop working for the Superintendency and until the corresponding information becomes public. In case of doubt regarding the disclosure of any particular information, the Board of Directors of the Superintendency will make the decision that the majority agrees on by vote of at least two thirds of its members.

The violation of the prohibition established by this article is considered cause to dismiss the transgressor without detriment of any corresponding civil or penal liability.

#### Article 167. Supplementary regulations

To apply the sanctions provided for in this law, the Superintendency will follow, insofar as suitable, the procedure established in articles 151 and following of the Organic Law of the Central Bank of Costa Rica, No. 7558 of November 3, 1995, and supplementarily, the provisions in the General Law of Public Administrations.

#### Article 168. Sanctioning authority of the Superintendency

The application of the sanctioning authority of the Superintendency is different from all other actions and responsibilities, civil or penal, that may be derived of the sanctioned actions.

If, upon performing its functions, the Superintendency learns about incidents that may be considered criminal, it must inform the Public Ministry as soon as possible.

#### Article 169. Integration

The General Superintendency of Financial Institutions, the General Superintendency of Securities, and the Retirement Funds Superintendency will operate under the direction of a body entitled National Council for the Supervision of the Financial System, also known as National Council, which will be integrated as follows:

Five members who will not be public officials and who will be appointed by the Board of Directors of the Central Bank of Costa Rica by majority of at least five votes. They will remain in their commission for five years and may be reelected once. Among them and for two-year periods, the National Council will elect its president who may be reelected. Public officials involved in



teaching activities may not be reputed for this purpose.

The Minister of the Treasury, or in absentia, one of the Vice-ministers in that office.

The President or the manager of the Central Bank of Costa Rica.

The General Superintendent of Financial Institutions, the General Superintendent for Securities, and the Retirement Funds Superintendent will attend the meetings of the National Council with voice but not vote. However, the National Council may hold a meeting only among its members whenever they agree to do so.

Article 170. Applicable regulation

The members of the National Council are subject to the requirements, impediments, incompatibilities, dismissal reasons, responsibilities, prohibitions, and remuneration established in articles 18 to 24 of the Organic Law of the Central Bank of Costa Rica.

Because of his or her managerial and coordinating functions, the President of the National Council will earn wages fifty percent (50%) over what the other directors receive.

Article 171. Functions

The National Council will have the following functions:

Authorize, suspend, intervene, and revoke the actions of the subjects under its supervision and of public offer.

Dictate the regulations of the Superintendency according to the provisions in article 5 and other related articles of this law.

Hear the appeals of preventive measures and sanctions imposed by the Superintendency provided for in Title IX of this law and hear any remedies of appeal that may be filed for actions dictated by the Superintendencies, which will exhaust the executive action.

Designate, at the right moment and for the term it deems convenient, advisory committees integrated by representatives of the subjects under its supervision, the investors, or other sectors of the economy to examine specific issues and to issue non-binding recommendations.

Approve the annual budget of the Superintendency and its modifications as well as its annual budgetary settlement.

Appoint and dismiss the General Superintendent of Financial Institutions, the General Superintendent for Securities, and the Retirement Funds Superintendent as well as the corresponding intendants.

Approve the budgets and annual budgetary settlement of the General Superintendency of Financial Institutions, the General Superintendency of Securities, and the Retirement Funds Superintendency within the global limit established by the Board of Directors of the Central Bank of Costa Rica and submit them to the Comptroller General of the Republic for their final approval.

Resolve competency conflicts presented by the superintendencies.

Perform the other attributions related to the General Superintendency of

Financial Institutions, the General Superintendency of Securities, and the Retirement Funds Superintendency conferred by the corresponding laws.

The National Council may require committees integrated by some of its members to hear certain issues according to the regulations established by the National Council itself.

#### Article 172. Appointments and functions

The General Superintendency of Financial Institutions, the General Superintendency of Securities, and the Retirement Funds Superintendency will have each a Superintendent and an Intendant who will be appointed by the National Council by majority of at least five votes for five-year periods and who may be reelected for as long as the National Council agrees to.

The superintendents and intendants will be subjected to the provisions in articles 18 to 23 of the Organic Law of the Central Bank of Costa Rica. They may be dismissed from their commissions, at any time, by the National Council by majority of at least five votes if, during the process initiated with this purpose, it is determined that they no longer meet the necessary requirements for their appointment or that they have been involved in any impediment or incompatibility cause or have stopped working or have been liable of a serious contravention while in their commission.

In relation to the appointment and dismissal of the personnel of each of the Superintendencies as well as the application of the disciplinary regulations, the superintendents will exhaust the executive action, except in the case of Superintendency internal auditors and other audit staff.

#### Article 173. Responsibilities of the Superintendent and the Intendant

The superintendents and intendants must include in their annual asset declaration, according to the Law Against the Illegal Enrichment of Public Officials (Ley Contra el Enriquecimiento Ilícito de los Empleados Públicos), a detailed account of the status of their obligations with any of the supervised subjects. When an official of any of the Superintendencies obtains direct or indirect credit from any of the supervised subjects, he or she should inform the corresponding Superintendent in writing within the month following the closing of the operation.

#### Article 174. Financing

Eighty percent (80%) of the Superintendency budget will be financed with resources from the Central Bank of Costa Rica and twenty percent (20%) using mandatory payments made by supervised entities.

#### Article 175. Superintendencies contribution to finance their expenses

Every entity supervised by the General Superintendency of Financial Institutions, the General Superintendency of Securities, and the Superintendency for Retirement Funds will contribute up to a maximum of two percent (2%) of their annual gross income to finance the expenses incurred in by the corresponding Superintendency. In case of non-financial issuers, the contribution will be up to zero point one percent (0.1%) annually over the amount of the issuance. Through Executive Power statutes the contribution percentages will be established according to the different kinds of supervised

entities within the maximum limits indicated above so that twenty percent (20%) of the expenses of each of the superintendencies is covered.

An additional payment will not be imposed when the same entity is under the supervision of more than one Superintendency, but the entity will contribute only to the budget of its natural or main supervisor, according to the conditions in the by-laws.

#### Article 176. Compensation of Superintendency officials

The National Council will adopt the necessary measures so that the compensation of the professional officials of the superintendencies is determined by taking into consideration the prevailing compensation rates on the national financial market, in its totality, to guarantee the qualifications of the personnel.

#### Article 177. Impediments

No Superintendency official may be director, manager, legal representative, official representative, employee, or partner of any of the subjects supervised by the superintendencies; neither may he or she have direct or indirect participation in the capital of those subjects. However, he or she may be a partner of cooperatives, mutual associations for housing, credit unions; he or she may be owner of share participations in investment funds; or he or she may be affiliated to retirement funds.

#### Article 178. References

Any reference in any law or regulation to the National Commission of Securities (Comisión Nacional de Valores) must be understood as referring to the General Superintendency of Securities established hereby.

#### Article 179. Effectiveness of the regulations and agreements

This law does not affect the effectiveness of the regulations and agreements issued by the National Commission of Securities and the General Superintendency of Financial Institutions and the Retirement Funds Superintendency which will remain in effect for as long as they are not modified or substituted according to the provisions of this law.

#### Article 180. Data transmission media and storage

The General Superintendency of Financial Institutions, the General Superintendency of Securities, and the Complementary Retirement Funds Superintendency may use electronic or magnetic data transmission and storage media to request information from the supervised institutions and to keep their records, minutes, and other documents up to date. The information thus obtained will have probatory value equal to any document for legal purposes.

#### ARTICLE 181. Reference to the National Council for Supervision of the Financial System

Any reference to the National Council for Supervision of the Financial System or to the Board of Directors of the General Superintendency of Financial Institutions or to the Directory Council of the Retirement Funds Superintendency in the Organic Law of the Central Bank of Costa Rica, in the Private Regime for Supplementary Retirement Funds Law, and in any other law or



regulation must be understood as referring to the National Council for the Supervision of the Financial System created hereby.

#### Article 182. Assigned jurisdiction

Resolved to authorize the Board of Directors for the Central Bank of Costa Rica, the Board of Directors of the National Commission for Securities, the Directory Council for the General Superintendency of Financial Institutions, and the Directory Council of the Retirement Funds Superintendency, to adopt all the necessary administrative and budgetary measures within their jurisdiction to arrange for the National Council for the Supervision of the Financial System to come into force. Authorized, too, the latter, once integrated, to adopt the necessary administrative, budgetary, and restructuring measures to assure the effective functioning of the Superintendency created hereby.

#### Article 183. Beneficiaries

Holders of checking and savings accounts and time deposit certificates and securities issued under their name by institutions subject to the control of the General Superintendency for Financial Institutions, may appoint beneficiaries in case of death, who, in this event and solely by proving it, will assume as a matter of law and without any legal proceedings or administrative procedures the title of the certificate or the account balance, whatever the case, for which purpose they will only require their identification as such and, in case of minors, that of their representatives.

#### Article 184. Amendment to the Penal Code

Amended articles are 239, 240, 241, and 366 of the Penal Code. The texts will now read as follows:

##### “Article 239 – Fraudulent offer of credit items

He who offers the public bonds of any type, shares, or debentures of business partnerships, while obscuring or concealing facts or truthful circumstances or affirming or hinting at false facts or circumstances, will be imprisoned from six months to two years. The penalty may be increased up to twice as much when the infringement involves the public offer of securities.

##### Article 240 Publication and authorization of false balances

The founder, director, administrator, manager, proxy, trustee, or auditor of a business partnership or cooperative or any other commercial institution who knowingly publishes or authorizes a false or incomplete balance, profit and loss record, or the corresponding reports will be imprisoned from six months to two years.

The penalty could be doubled when the case involves an institution offering public securities.

##### Article 241 – Authorization of unlawful actions

The director, administrator, manager, or proxy of a business partnership or cooperative who knowingly cooperates with or consents to actions against the law or statutes, from which any damages may be derived for the company he/she represents or the public, will be imprisoned from two months to two years.

The penalty may be doubled when the person involved carries out public offers



of securities.”

Article 366 Currency-paired securities.

In order to apply the penal law, the following are considered currency:

Legal currency notes and coins, either national or foreign

Credit or debit cards

National or municipal certificates of indebtedness and their coupons

National or municipal treasury bills or bonds

Bearer debentures, scrips, and nominal shares, their coupons, and the bonds and bills issued by a foreign government

Torn or altered currency

Book Entry Security System

Article 185. Additions to the Penal Code

Add to the Penal Code a fourth section denominated “Stock Market Crimes” .

Add to title VIII “Crimes against good faith in business” . It will contain two new articles which will make it necessary to renumber the rest of the articles in the Penal Code. Their texts will read as follows:

“Article 244 Market price manipulation

He/She who makes the prices of negotiable securities rise, drop, or that maintains the price of negotiable in order to obtain benefits for him- or herself or a third party or to damage another market participant, either by affirming or simulating facts or false circumstances or by distorting or concealing the facts or truthful circumstances, so as to misrepresent the essential characteristics of the investment or issuance, will be imprisoned from three to eight years.

Article 245. -Disclosure of inside trading information

He/she who, when possessing inside trading information related to negotiable securities, their issuers, or the stock market, acquires or transfers, either him- or herself or through a third party, securities of such issuers with the purpose of obtaining an undue benefit for him- or herself or for a third party, will be imprisoned from three to eight years. For the purposes of this article, confidential information is considered that which by its nature may influence the price of issued securities, and which has not yet been made public.

Article 186. Addition to the Civil Code

Add a final paragraph to article 483, two last paragraphs to article 1104, and a final paragraph to article 1111 of the Civil Code

Add a final paragraph to article 483, whose text will read:

“Article 483.

[...]

It will not be required to notify the debtor in the cases provided for in article 1104 of this Code.”

Add two final paragraphs to article 1104, whose texts will read:

“Article 1104.

[...]

The exception to the required notification will also apply in cases in which the contract has provisions in this sense, and as long as it deals with operations in which rights are assigned as components of a credit portfolio in order to:

Guarantee issuance of securities issued through public offers.

Constitute a company's assets so as to issue securities that may be offered to the public and whose amortization and interest services are underwritten by such assets.

The transfer will be effective as of its date, as evidenced on the public document of true date. These operations will be exempted of the payment of any stamp tax. Professional fees will be mutually accorded by the parties."

Add a last paragraph to article 1111, whose text will read:

"Article 1111-

[...]

For the operations referred to in subsections a) and b) of article 1104, the debtor may only file an exception of payment against the assignee provided that it is duly documented and has been made out prior to the transfer; likewise voiding the credit relationship."

Article 187. Amendments to the Business Code

Amend articles 102, 120, 138, 491, 492, 632, 648, 805, and 826 of the Business code, whose texts will read:

The second paragraph of article 102 of the Business Code is repealed.

Article 120 is amended and its text will now read:

"Article 120.

A share is a security by which the status of stockholder is accredited and transferred. Common shares --also known as ordinary shares-- grant equal rights and represent equal parts of the corporate capital and must be nominative. It is prohibited to issue null value shares.

Both common and preferred stocks as well as other equity certificates may be issued in national or foreign currency."

Add a final paragraph to article 138, whose text will read:

"Article 138.

[...]

The provisions in this article will not be applicable to partnerships whose stocks are registered in the National Registry of Securities and Intermediaries, and are quoted in an authorized stock market."

Add two final paragraphs to article 491, whose texts will read:

"Article 491.

[...]

This notification will not be necessary in cases when, as previously established as valid in the initial contract, the operations transfer rights as components of a credit portfolio in order to:

Guarantee security issuance through public offering.

Constitute the assets of a corporation for the purpose of allowing it to issue

securities that may be offered to the public, and which amortization and interest services are secured by such assets.

The transfer will be effective as of the date, shown on the public document of true date. These operations will be stamp-tax exempted. Professional fees will be mutually agreed upon by the interested parties.”

Add a final paragraph to article 492, whose text will read:

“Article 492.

[...]

For the purpose of the cases provided for in subsections a) and b), of the previous article, the debtor may only file an exception of payment against the assignee provided that it is duly documented and has been made out prior to the transfer, likewise voiding the credit relationship.”

Amend article 632, so that it reads as follows:

“Article 632.

Upon clients’ request, banks will certify, by means of a microfilm, digital image, or electronic file, details of checks that they have made out. The cost will be charged to the clients’ account. The maximum term for requesting this certification will be four years as of the payment date on the check, and banks may charge for this service. Certified microfilming or digital imaging will be considered enough evidence regarding all documents related with checking account transactions, and will have the same legal force as the original document. The Central Bank of Costa Rica will determine, in its Payment System By-laws, the conditions that the certified digital imaging must meet.”

Add a second paragraph to article 648, which text will read:

“Article 648.

[...]

A trust indenture on goods or equities can be given as debt collateral by the founder of the trust to the trustee. In such case, the trustee may sell or auction the goods in case of default, as stipulated in the agreement.”

Amend article 649 so that it reads as follows:

“Article 649.

In order to reduce investment risk, the trustee must diversify investments and may not invest more than a third of the trust capital in just one venture, except under express authority of the founder of the trust.”

Amend article 805, whose text will now read:

“Article 805.

A check’s ownership is transferred by means of endorsement, unless it is a bearercheck; in this case, the usual protocol is enough. The check may be endorsed only once, without taking into account for this purpose the endorsement authorizing it to be deposited in a bank account or authorized financial institution.

Checks made out to a corporate entity are not transferable by endorsement. These checks may be cashed only by the corporate individual payee, or they may

be deposited in one of its accounts.”

Amend article 826, which text will now read:

“Article 826.

[...]

When the check contains the word "bank" on its back, between two parallel lines, the check may not be endorsed; instead, it must be deposited in one of the payee's accounts in a bank or authorized financial institution. If the specific name of a bank or authorized financial institution has been added to the word "bank", the check may only be deposited in an open account at this specific institution.”

Article 188. Amendment to Law No. 7558

Amend the following articles in the Organic Law of the Central Bank of Costa Rica, No. 7558, of November 3rd, 1995, as follows:

Amend subsection m) of article 28, whose text will now read:

“Article 28. Attributes, jurisdiction, and obligations

[...]

m) Agree on the annual budget and the extraordinary budget of the Institution. Both must be approved by the Comptroller General of the Republic. Likewise, it may dictate its own policies regarding post classification and ranking. For this purpose, it will take into account the particularities and specific needs of the functions performed by its agencies, agencies dependencies, and decentralized agencies. [...]

Amend article 40, which text will now read:

“Article 40. Internal organization

The Central Bank of Costa Rica will have the internal organization, which, according to its Board of Directors, ensures the best service at the institution.

The offices and agencies of the State and of autonomous institutions will be obliged to assist the departments of the Central Bank in order for them to efficiently carry out their functions. To this end, they should provide any data, reports, or studies requested by the Bank to its departments as soon as possible.

Failure to carry out this obligation on the part of the officials in charge of State offices and agencies and of autonomous institutions will be considered serious noncompliance of their job responsibilities.

The officials of the Central Bank of Costa Rica will have access to fiscal information for statistical purposes only. They should abide by the same prohibitions and limitations established in article 117 of the Fiscal Regulations and Procedures Code, Law No. 4755, of May 3, 1971; moreover, they are subject to the provisions in article 203 of the Penal Code.”

Add a subsection f) to article 52, whose text will read:

“Article 52. Credit operations

[...]

f) To buy and sell securities in the bank and stock markets, by securities transfers or similar means, using for this purposes securities issued the



Central Bank of Costa Rica itself or by the Government, and. Which are in circulation and come from the secondary market. The Board of Directors will regulate the conditions to formalize these operations."

Amend article 69, which text will now read:

"Article 69. Organization of the payment system

The Board of Directors of the Central Bank of Costa Rica will organize and regulate the operation of the payment system, such that users of the financial and bank services are guaranteed that the institutions authorized to operate in the Clearing House and in the electronic systems established by the Central Bank will credit the amount of transfers received and clearable documents belonging to other participants within a specific time period after confirming outright settlement of the checking account the participant has in the Central Bank. The Board of Directors of the Central Bank will determine in its Payment System Regulations that period of time and the conditions required for an institution to participate in the systems established by the Central Bank. In any case, the maximum accreditation period will be 5pm on the working day following the date in which the clearable document or transfer has been received

If a participant in the payment system does not comply with the accreditation period for one of its users, the transgressor will have to pay the victim an equivalent indemnification to be applied to the delayed credited amount, an annual rate equal to the rediscount rate charged by the Central Bank, plus five percentage points for the time that the accreditation was delayed. If the participant does not make the corresponding payment, the victim may notify the Central Bank for it to certify the indebtedness at an executive title. In addition, the Central Bank will impose the following sanctions on the transgressor upon holding an open hearing, for this purpose:

A written warning, for the first infraction

A five percent (5%) fine on the amount credited late, for the second infraction within the same calendar year.

A ten percent (10%) fine on the amount credited late, for the third infraction within the same calendar year.

The Clearing House is subject to the supervision and control of the General Superintendency for Financial Institutions. For accreditation purposes, all participants in the Payment System will follow the same bank schedule, which working hours will be detailed in the Payment System Regulations.

The Central Bank may charge the authorized participants for services rendered, and the corresponding fees will be detailed in the Payment System Regulations.

Amend entry a) of article 128, which text will now read:

"Article 128. Duties of the Directory Council

[...]

a) Dictate general organization, personnel, and functioning regulations for its Internal Audit and any other rules necessary for the development of the Superintendency functions.

[...]"

Add the following phrase to entry u) of article 128, which text will read:

Article 128. Duties of the Directory Council

[...]

u)

[...] The mergers or transformation of institutions subject to the control of the General Superintendency of Financial Institutions must be previously authorized by the Superintendency in order to assure the stability and financial standing of the prevailing institution, and the compliance of the latter with the applicable reasonable control standards in agreement with the corresponding regulations. The regulations should establish peremptory periods for the Superintendency to analyze and to issue statements on any merges or transformation projects.

[...]"

Amend the second paragraph of article 135, which text will now read:

“Article 135. Operation limits

[...]

The maximum limit will be an amount equivalent to twenty percent (20%) of the capital subscribed and paid-in, as well as of the equity reserves of the financial institution. The maximum amount for credit in the bank mortgage departments and in the Rural Credit Department of the National Bank may not exceed ten percent (10%) or twenty-five percent (25%), respectively, of their capital and equity reserves. Without exceeding the maximum limits established by the Board of Directors within the above parameters, the institutions may internally establish their own ceilings. In the case of the Mortgage Bank for Housing (Banco Hipotecario de la Vivienda), the General Superintendency of Financial Institutions may authorize a maximum limit of forty percent (40%). In this case, the Superintendency will assure that the forty percent (40%) increase does not imply that the Banco Hipotecario de la Vivienda may favor or discriminate against any of the different mutual associations in the country. In articles 141 to 150, any reference to the Board of Directors of the Central Bank of Costa Rica should be understood as in reference to the National Council for Supervision of the Financial System created by this law. This will not affect the effectiveness of the regulations and agreements of the Central Bank related with such articles, which will remain in force until they are modified by the National Council.

Amend article 175, which text will now read:

“Article 175. Redocumentation

The Central Bank and the Ministry of the Treasury must have noticed, within the two months following the enforcement of this law, the financial conditions of the redocumentation of the Central Government obligations, originating in the quasi fiscal operations performed by the Central Bank. This redocumentation will take place under the following conditions:

By issuing securities in colones; the obligations of the Government with the

Central Bank that have returns lower than those on the market or with no return at all. This debt is composed of bonds, other securities, payable commissions and interest, and special loans.

By issuing securities in dollars payable in colones; the credit balance of the Government arising from the external debt restructuring agreements with private banks.

By issuing securities in colones; the balance of the totality of stabilization bonds placed in open market operations by December 31st, 1995, by the Central Bank.

Issuing securities in colones for the total payable by the Central Bank to the public commercial banks due to the indebtedness from exchange losses, in accordance with the definition made by the Board of Directors of the Central Bank which were not canceled, according to article 178 of the Organic Law of the Central Bank, with resources from the fund for exchange losses created for this purpose. The Central Bank may condition the rebate in the minimum legal reserve referred to in transitory XV of this law to the delivery of enough bonds to compensate any net monetary expansion effect attributable to that reduction in the reserves, taking into account the increase in the reserve bases.

Issuing securities in colones so that the Ministry of the Treasury pay the Central Bank the purchase and sale of the real estate authorized hereby, registered on page No. 1-381599-000, for the amount of 1,405,415,500.00, according to special appraisal No. AV-ADM., 436-97.

The service of the securities granted to perform the service of the mentioned securities in subsections a), b), c), d), and e) must be carried out by the Ministry of the Treasury, together with the interests earned as of December 31st, 1995, and up to the date of the negotiation, in bonds of equal nature and announced conditions".

Article 189. Amendment to Law No. 1644

Amend the first paragraph of subsection 7 of article 116 of the Organic Law of the National Banking System, No. 1644, of September 26th, 1953, which text will now read:

Article 116.

[...]

7. To set up trust indentures according to the provisions in the Business Code and other applicable legal and regulatory requirements."

Article 190. Amendments to other laws

Amendment to laws related to the formalization of credit lines

Amendment to the National Registry Stamp, created by Public Registry Tariff Law, No. 4564, of April 29th, 1970: amend article 1, Table II, last paragraph, which text will read as follows: "0.50 per thousand in periods below 5 years and 1.00 for mortgages over a 5 year term will be applied to the registration of mortgages and mortgage assignments in amounts over 100 thousand. Likewise, entry 30) of article 1 is also amended so that the amount paid for the



constitution of the mortgage per debenture be 2x1000, and the amount paid for the cancellation of common mortgages or debentures is repealed.

Amendment to the Fiscal Stamp created by Law No. 8 of 1885 and its amendments: Amend entry 12) of article 273 so that it includes the following text: "Notes and promissory notes will be tax exempted". Likewise, article 273 is amended so that it includes a new subsection 30) whose text will read: "the registration, cancellation, debenture, or modification of mortgage and collateral securities requested for the attainment of a loan is exempted from the payment of stamp duties."

Amendment to the Public Registry Tariff Law: Amend entries 39) and 47) of article 1 so that the registration of the by-laws, appointments, extensions of the social terms, proxies, and modifications to the social pact of the business associations in the Public Registry, including increases in capital, will pay an only amount equivalent to a tenth of the base salary determined in Law No. 7337 of May 5th, 1993, for each document registration related to the same corporate individual, as registration rights, referred to in Law No. 4564 and its amendments, of April 29th, 1970. These registrations will be exempted from the payment of the Agriculture Stamp created by Law No. 5792 of September 1, 1975, and its amendments. Likewise, any applicable fees will be determined by the parties.

Article 191. Amendments to Law No. 7523

Amend article 1, the first paragraph of article 3, and article 5 of Law No. 7523 of July 7th 1995. The texts will now read as follows:

“Article 1 Objectives.

This law has the purpose of authorizing and regulating the creation of supplementary pension systems or plans aimed at providing supplementary protection benefits for the risks of old age and death, as well as the individual capitalization plans aimed at encouraging and promoting medium- and long-term forecasting and savings."

“Article 3 Operators.

The operators of supplementary pension plans may administer private pension and individual capitalization plans and must form a corporation with the only purpose of administering the aforementioned plans as well as their Funds. The regulatory institution will determine the requirements and conditions that corporations must meet to be authorized to function as operators, in accordance with the provisions of this Law and those in the Business Code related to the formation of corporations.”

[...]

“Article 5. Minimum capital for constitution

The minimum capital necessary for the constitution of a pension fund operator shall not be below seventy-five million colones and must be solely registered and paid in the moment of its authorization. The institutions mentioned in the second paragraph of article 3 must constitute a provision for capital reserves for that same amount.

If, according to the regulating institution, the investments of any operator



report an accelerated and significant increase or a larger risk, it may order a capital increase, according to the general application guidelines that the regulatory institution shall dictate. If the operator's capital is reduced to an amount below the minimum required, it must complement it within a three-month period, according to the procedure that for this purpose the regulating institution shall establish."

Article 192. Repeals of the Business Code

Repeal articles 404 and 405 of the Business Code

Article 193. Repeals of Law No. 7523

Repeal the second paragraph of article 33 and article 34 of Law No. 7523 of July 7, 1995

Article 194. Repeals of Law No. 7558

Repeal entries o), p), and s) of article 28, the second paragraph of article 68, articles 121, 122, 123, 125, 126, 127, entry d) of article 128, and the second paragraph of article 144 of the Organic Law of the Central Bank of Costa Rica, No. 7558 of November 3rd, 1995.

Article 195. Repeal of Law No. 7091

Repeal Law No. 7091 of the Regulation of Advertising of Public Offerings of Securities, No. 7091 of February 10th, 1988.

Article 196. Repeal of Law No. 7201

Repeal the Regulatory Law of the Stock Market, No. 7201, of September 18th, 1990.

Article 197. Jurisprudence

This is a public order law and repeals all previous laws that oppose it.

Transitory I

The issuance of securities in series referred to in the first paragraph of article 10 of this law must be completed no later than the eighteenth month following the enforcement of this law according to the regulations to be dictated by the General Superintendency of Securities.

Transitory II

The Superintendency may authorize, up to five years after the enforcement of this law, the stock market to handle joint portfolios of money market according to the bylaws issued for this purpose.

Transitory III

The limitation referred to in the second paragraph of article 85 will be in effect once the term indicated in Transitory I of this law expires.

Transitory IV

The members of the Management Council of the General Superintendency of Financial Institutions, of the Board of Directors of the National Commission of Securities, and of the Management Council of the Retirement Funds Superintendency will no longer work in their present posts as soon as this law comes into force. On this same date, the National Council for the Supervision of the Financial System must be integrated, according to the provisions of this law. The members of the management councils and board of directors

aforementioned may be appointed to the National Council if they meet the corresponding requirements.

#### Transitory V

For only once, the appointment of two of the five members of the National Council for the Supervision of the Financial System who may not be public officials will fall into two members of the Board of Directors of the Central Bank of Costa Rica to be designated by the Board. Their appointment will be in effect until July 1st, 1998. As of this date, two new members will be appointed for a five-year period according to the provisions of this law.

#### Transitory VI

The current superintendents and intendants of the General Superintendency of Financial Institutions and of the Superintendency for pension funds, the manager and assistant managers of the National Commission of Securities will remain in their posts until the period for which they were appointed expires. For this purpose, the posts of manager and assistant manager of the National Commission of Securities will be considered equivalent to those of the superintendent and intendant of the General Superintendency for Securities created by this law.

#### Transitory VII

The capitalization plans existing when this law comes into force must be adapted to the regulations established within a one-year period.

#### Transitory VIII

The National Council for the Supervision of the Financial System may deem obligatory the representation by means of book entry securities as provided for on the third paragraph of article 115 even for all the securities that may be subject to public offer after one year as of the enforcement of this law. When they do, it will give issuers a reasonable term to adjust to the pattern of book entry securities according to the regulations of the Council.

#### Transitory IX

Commodities exchanges will be subject to the regulations and control of the Superintendency according to the standards and principles provided for by this law which are reasonably applicable and as long as a special legislation to regulate them is not dictated. To this end, the Superintendency will dictate special regulations.

It becomes in force two months after its publication, except in the case established in article 190 of Title XII, Amendments to other laws, which will be in force as of the publication date as well as the amendment to article 69 of the Organic Law of the Central Bank of Costa Rica mentioned in subsection d) of article 188 of this law which will be in force as of July 1998.

#### LEGISLATIVE ASSEMBLY

San Jose, this eighth day of December of nineteen ninety-seven.

#### INFORM THE EXECUTIVE POWER

Saúl Weisleder Weisleder

#### PRESIDENT

Carmen Valverde Acosta Humberto Fuentes Gonzalez

