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PENSION REFORM AND CORPORATE GOVERNANCE: IMPACT IN CHILE*

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ABSTRACT

The influence of Chilean pension fund management organizations (AFPs) on corporate governance has been shaped by regulations and by three characteristics of the local market, namely: lack of liquidity; high ownership concentration; and high visibility of AFP investment decisions. AFPs began to invest in stocks in 1985, and have behaved since as active shareholders. Pension fund participation in the stock market has had positive effects on corporate governance: 1) The number of independent board members has increased. 2) Monitoring costs have decreased as a result of improved public information quality. 3) Companies where pension funds have invested are under close public scrutiny. 4) Shareholder meetings are becoming more relevant. 5) Bondholder protection has also improved. Capital market growth has also had positive consequences on corporate governance. Economies of scale have made possible a new research industry, which has helped to reduce information costs. Also, market financing has become more attractive for firms. Capital market regulation has also improved and risk-rating procedures and conflict of interests regulations have been introduced in the legislation. All these changes have widened the investor base. However, other regulations and some ambiguities in the legislation impede pension funds to better monitor corporations, other than participating in shareholder meetings.

Key words: Pension Reform, Corporate Governance, Chile, Emerging Markets, Regulations.
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RESUMEN

La influencia de las Administradoras de Fondos de Pensiones chilenas (AFP) sobre el gobierno corporativo (GC) de las sociedades anónimas es el resultado de regulaciones y de tres características particulares del mercado local: poca liquidez, alta concentración de la propiedad y alta visibilidad de las decisiones de inversión de las administradoras. Éstas comenzaron a invertir en acciones en 1985, y desde entonces han actuado como accionistas activos. La participación de las AFP en el mercado accionario ha tenido efectos positivos en el gobierno corporativo: 1) Ha aumentado el número de directores independientes. 2) Los costos de monitoreo han disminuido como consecuencia del mejoramiento en la calidad de la información que se entrega al público. 3) Las empresas donde las AFP han invertido están bajo la atenta mirada del público. 4) Las juntas de accionistas han cobrado importancia. 5) También ha mejorado la protección al tenedor de bonos. El crecimiento del mercado de capitales también ha afectado positivamente el GC de las sociedades anónimas. Las economías de escala generadas han hecho posible la existencia de una nueva industria de análisis de empresas, reduciendo los costos de la información para los inversionistas pequeños. Además, el financiamiento a través del mercado se ha hecho más atractivo para las empresas. La regulación del mercado de capitales también ha mejorado y se han introducido en la legislación normas que regulan los conflictos de intereses. Todos estos cambios han ayudado a aumentar la base de inversionistas. Sin embargo, hay otras normas y algunas ambigüedades en la legislación que privan a las AFP de mecanismos de monitoreo a las empresas, aparte de asistir a las juntas de accionistas.

Since the early eighties, and as the result of radical reforms to their social security systems, pension funds have come to play a leading role in capital markets of many Latin American countries. So far, the Chile shows the most interesting experience, with a twenty-year-old system, a very active presence in capital markets, and mature regulations.

In Chile, pension funds, plus the reserves of life insurance companies grew from US$1 billion in 1981 to more than US$40 billion in 1999 (see

Table 1). Annual increases in funds managed by these institutional investors have reached over 3 percent of the GNP and account for more than 10 percent of total savings.

TABLE 1
CHILE: PENSION FUNDS AND RESERVES OF LIFE INSURANCE COMPANIES
(DECEMBER OF EACH YEAR)

Year	Pension Funds		Life Insurance Companies		Total		Social Security Savings*
	(MMUS$)	%GNP	(MMUS$)	%GNP	(MMUS$)	%GNP	%GNP
1981	300	0.9	735	2.3	1,034	3.2	1.4
1982	606	3.7	544	3.2	1,150	6.9	1.9
1983	1,136	6.5	594	3.3	1,730	9.8	1.8
1984	1,244	8.5	623	4.2	1,867	12.7	1.9
1986	1,533	10.6	660	4.7	2,192	15.5	1.9
1986	2,117	12.7	838	5.3	2,954	17.9	2.1
1987	2,708	14.2	835	4.7	3,543	18.9	2.1
1988	3,584	15.1	1,078	4.9	4,662	21.1	2.5
1989	4,470	17.7	1,320	5.7	5,791	25.2	2.8
1990	6,658	24.3	1,885	7.5	8,544	31.8	3.1
1991	10,064	31.4	2,538	8.0	12,603	39.4	3.7
1992	12,395	30.6	3,339	8.5	15,735	39.1	3.4
1993	15,942	38.0	4,130	9.7	20,072	47.7	3.7
1994	22,296	42.1	5,896	10.9	28,192	52.9	3.9
1995	25,143	39.5	7,116	10.9	32,259	50.4	3.5
1996	27,198	40.9	8,039	12.0	35,237	52.5	3.0
1997	30,525	42.2	9,845	13.4	40,369	54.9	3.2
1998	30,805	43.3	N.D.	N.D.	N.D.	N.D.	3.4
1999	34.646	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.

Source: PrimAmérica Consultores
* It does not include social security savings outside the AFP system

This process of “institutional fund” accumulation has had an impact on capital markets’ size and regulatory characteristics, both of which affect corporate governance.

Also, because of pension fund growth, AFPs have become the most important minority shareholders in most of Chile’s listed corporations, and a major source of debt financing for public and private companies. (Total investment in stocks by pension funds grew from US$162 million in 1985 to a peak of US$7.5 billion in 1997, and investment in corporate bonds grew from US$1.8 million in 1981 to US$1.3 billion in 1999).

In accordance with the law, pension funds must exercise their voting rights as shareholders of corporations and, when necessary, as members of "debtors clubs". The lack of market liquidity for certain stocks and corporate debt limit pension funds' possibilities of using exit (selling out) as a protective device in case of disagreement with management or if a given company's results do not meet their expectations. Also these particular characteristics of the Chilean system encourage the AFPs to take a more active role as shareholders and bondholders.

On the other hand, pension fund activism poses at least two questions concerning potential conflicts of interest.

First, there is the risk of pension fund managers using the funds to finance firms where they have interests. However, there are some characteristics of the pension system that help to control for this kind of problem.

Pension funds are part of the social security system and are not "company plans". Each individual worker selects the pension fund manager from a list of authorized companies, and can switch from one to another about twice a year. Also, there is a regulation that limits the amount each fund can invest in assets issued by firms related to the pension company (through ownership or management). The combination of these factors rules out in Chile that cases arise in which pension funds are substantially invested in companies that are closely related to the managers of the pension fund.[1]

Secondly, there is the possibility of the government using pension fund investments to influence the decisions of private firms. However the AFPs are private firms which, as explained, are selected by each individual. Also, although investment decisions could be influenced through changes in regulations, the process of pension law reform is very complex and any change must be approved by a substantial majority of Congress. So, in Chile, and at least under the present regulation, the risk of political interference in investment decisions of pension fund managers in low.

This paper is intended to document the effects of the reform to the Chilean pension system on corporate governance. Since the impact of pension funds in corporate governance has been shaped by regulation, in Section I a summary of the characteristics of the relevant investment regu-

[1] As we will see, there is a special investment limit that authorizes pension fund managers to invest up to 5 percent of the fund in equity or debt of related companies.

lations for the pension funds is presented. In Section II there is a discussion of different ways in which pension reform has produced an impact on corporate governance. Finally, in Section III, some unsolved regulation problems are highlighted and some conclusions advanced.

I. REGULATIONS CONCERNING PENSION FUND INVESTMENTS[2]

Pension fund investment regulations include quantitative restrictions (lists of authorized assets and diversification rules); conflicts of interest regulations; valuation rules; and the definition of procedures to execute transactions and custody.

At least three objectives of the pension fund investment regulation are particularly relevant because of their consequences over corporate governance: to ensure that pension fund portfolios are diversified in a relatively large number of companies; to ensure that the AFPs are complying with their fiduciary responsibilities; and to avoid conflicts of interest (agency problems) between the AFPs and their affiliates.

Different regulations, each one with a different impact on the role of pension funds in corporate governance, have been used in order to meet these objectives. In particular, in order to ensure that AFPs fulfill their fiduciary role, regulations provide that they monitor the performance of the companies in which they invest, while at the same time, avoid possible conflicts of interest between the AFPs and their affiliates, the regulations have also defined the monitoring instruments that may and may not be used.

As a result, to evaluate pension fund impact on corporate governance, it is necessary to bear in mind that the AFP decisions are greatly influenced by the characteristics of their investment regulations; that these regulations have more than one single objective; and that there is permanent tension between the various objectives of the legal restrictions.

Our analysis below shall focus on the legal rules which have the most direct impact on the role of the pension funds in corporate governance. These are the investment limits; the regulations applying to AFP participation in open corporations; and those which seek to control potential

2 See Acuña and Iglesias (1999) for a complete description and analysis of the pension reform experience in Chile. A complete description of the characteristics of pension system regulation is found in the SAFP (1996).

conflicts of interest between the AFPs and their affiliates. At the end of the chapter there is a brief overview of other regulations that have a more indirect impact on corporate governance.

A. Quantitative restrictions

AFPs may only invest in asset classes authorized by law. Also, the selection of assets is subjected to maximum investment limits. For example, no more than 50 percent of the funds can be invested in government bonds; no more than 37 percent in equity; and no more than 16 percent in foreign securities.

In addition to the general limits, there is a series of maximum investment limits for sub-groups of instruments of similar characteristics, and according to their risk rating.[3]

The law also defines specific limits according to the company or financial institution that issues each instrument. These limits depend on the size of the pension fund, the net worth of the company, and risk rate.

In the case of stocks, the maximum investment limits per company are fixed as a percentage of the total shares outstanding and as a percentage of the pension fund. This last limit depends on the degree of ownership concentration of the company (the greater the concentration, the lower the investment limit); the liquidity of the stock; and the proportion of its business that is under its direct control (see Table 2).

3 See articles Nr. 45 and Nr. 47 of D.L.3,500

TABLE 2
PENSION FUNDS: STOCK INVESTMENT LIMITS*

Instrument	Limit by instrument (per cent of the fund) (**)	Limit by issuer
Total stocks from open corporations	37 percent	Minimum between: 5 per cent FP x FC x FL x FA (1) 7 percent stocks (2)
Sub-limits		
• Stocks from banks & financial institutions	5 percent	Minimum between: 2.5 percent FP x FC x FL x FA 2.5 percent stocks (3)
• Stocks from Real Estate corporations	10 percent	Minimum between: 5 percent FP x FC x FA 20 percent stocks (4)
• Stocks without Risk Rating Commission approval	1 percent	Minimum between: 0.15 percent FP 7 percent stocks (2)
• Stocks (and other instruments) from issuers with less than three years of operation	5 percent	Minimum between: 5 percent FP x FC x FL x FA (1) 7 percent stocks (2)
• Stocks from companies of the same entrepreneurial group	15 percent	Not applicable

Source: PrimAmerica Consultores, based upon DL Nº 3.500
(*) Does not include limits in foreign stocks.
(**) Limits currently established by the Central Bank, within the range of limits set by DL 3.500. Total investment in instruments issued by institutions related to the AFP is 5 per cent of funds.
(1) FP: Pension Funds; FC: Concentration Factor (values between 1 and 0.3); FL: Liquidity Factor (values between 1 and 0.2); FA: Factor of Trimmed Assets (values between 1 and 0.6).
(2) If related to the AFP the limit is reduced to 2 percent of stocks.
(3) If related to the AFP the limit is reduced to 0.5 percent of stocks.
(4) If related to the AFP the limit is reduced to 5 percent of stocks.

We can see that an AFP can not have more than 7 percent of any given company's stocks, or invest in it more than 5 percent of the pension fund. Nor may it invest in the stocks of companies not listed in the stock exchange, nor in listed ones that do not comply with the conditions provided for by the regulations (see section II.4b).

B. Voting rights of AFPs as shareholders of corporations[4]

As a general principle, Chilean regulations set forth that AFPs should carry out all the necessary steps to ensure "adequate profitability and safety of the investment of the funds they manage", adding that they are obliged

[4] The next two sections are based on Iglesias and Majluf (January, 2000). A summary of this kind of regulations in other Latin America countries is presented in the Appendix (Table 1).

to reimburse the pension fund for any direct damages they may cause, whether by omission or commission.

Based on this principle of fiduciary responsibility, the law also states that AFPs must attend the shareholder meetings of those companies in which they have acquired stocks, and that they must vote on each one of the agreements reached, including the election of board members (AFPs are exempted from the obligation to attend and vote only in certain exceptional cases).[5]

Also, regulations require AFPs to register their vote in the respective shareholder meeting minutes and to inform the Superintendent of AFPs about the rationale of their decision on each of the matters submitted to shareholder consideration (at least part of this information is made public, since the Superintendency of AFPs' yearly official bulletin includes details of each AFP vote connected with the election of board members of corporations). The law also requires AFPs to vote individually and through a legal representative (meaning that they cannot assign their voting rights to a third party).[6]

Some restrictions on AFP vote are discussed in the next section.

C. Conflict of interest regulations

The legislator anticipated that the exercise of voting rights by the AFPs might give rise to conflicts between the affiliates' interests and those of the AFP itself. In particular, the regulator has attempted to avoid one particular type of agency problem, namely the possibility that of AFPs trying to influence companies' managements for their own benefit or that of related parties, at the expense of the interests of their affiliates.

Different regulations have been used with this purpose. First, there are a couple of "quantitative" limits:

The AFP may not purchase on its own behalf stocks that may be acquired by the pension fund.

5 When the investment does not exceed 1 percent of the shares of the company and 0.5 percent of the pension fund and when the company has not included in its statutes regulations relating to the maximum concentration of property and the obligation to submit both the investment and financial policies of the society and the disposal of possessions and rights of the society to shareholder meetings (these are the firms that are not under "Chapter XII" provision).

6 Chilean corporate law does not make any distinction between pension funds and other kinds of shareholders of a firm, so AFPs, as representatives of the pension funds they manage, have all the rights given to shareholders by corporate law and the current statutes of each company.

> There is a substantial reduction in maximum investment limits in stocks of companies related to the AFP. In addition, more demanding liquidity conditions are imposed on these investments: they have to be approved by the Risk Rating Commission; and a maximum limit of 5 percent of the pension fund is set for the whole group of investments in related companies (see Table 2).

In addition to these “quantitative” limits, other restrictions have been set concerning the way in which AFPs may monitor and influence company decisions.

In the first place, the AFPs are prevented from voting for candidates to the board that are persons related to the majority shareholders or to those who control the company.

Also the Superintendency of AFPs has ruled that “It is entirely contrary to the spirit of the law (D.L. 3.500) for one or more funds to form an association or act in a block in order to exercise their shareholders' rights”. The only exception to this prohibition is the case of Board-member elections at corporations where an explicit authorization has been given to AFPs to act jointly (but not with other shareholders).

This particular regulation of the Superintendency of AFPs was later reinforced by the Antitrust Prosecutor who stated that a possible agreement between AFPs to attend a shareholder meeting with a previously decided position, “might constitute collusive conduct on the part of these institutions in the exercise of an economic activity, this being incompatible with the rules protecting free competition...” The Prosecutor added that “other agreements (apart from those designed to elect board members) that might be adopted by those organizations [the AFPs], related with businesses of a commercial nature ... would constitute a joint intervention in the management of the firms in which the pension fund resources are invested, this being expressly forbidden...”.[7]

What is meant by “joint -or collective- action” has not yet been clearly defined. Initially, it seemed that what was understood by “joint action” was not only the formation of formal coalitions to vote in a particular way in shareholder meetings, but also almost any action on the part of an AFP aimed at unifying opinions with other AFPs when confronting a share-

[7] (Oficio Ordinario N°17, January 15, 1999, from the Fiscal Nacional Económico (Antitrust Prosecutor) to the president of the Association of AFP.)

holder meeting. According to this interpretation, two or more AFPs could vote at a shareholders' meeting in the same way, only if each one of them, acting with total independence, without exchanging opinions or analyzing together the subject to be decided upon, coincided in the same decision.

However, more recently the authorities have also stated that by joint or collective action they understand "to appoint a common representative and, in short, to make a business agreement", a definition under which the exchange of opinions and the design of a common strategy for acting in shareholder meetings might well not be included.[8] In any case, and because of the confusion about the exact extent of this legal restriction, the AFPs themselves have chosen to understand that no collective actions of any type are allowed, except in the case of the election of corporate board members.[9]

Finally, regulations also prohibit AFPs from carrying out "any action which might imply participating in or having any bearing on the management of a company in which they have elected one or more members of the board". According to the interpretation given by the authorities, this means that AFPs are neither allowed to use any monitoring instrument except the analysis of public information issued by the company for the market, nor try to influence a company's decision by any means other than participating in shareholder meetings.

Some consequences of this regulation are that the AFPs are not authorized to give a public opinion regarding the progress of a company; nor may they express their opinions to the management or to other shareholders of the company; or instruct the board members for whom they voted as to whether they should act in a particular way.

This prohibition to "participate in or having any bearing on the management of a company", plus the restrictions on collective action, mean that AFPs can neither initiate collective actions (among themselves or with other shareholders) in order to influence the management of a company or its controllers, nor, if relevant, negotiate with them to seek a solution to the problems arising in the firm.

[8] See statements by the Superintendent of AFPs to *El Mercurio* (3 January and 5 February, 1999).

[9] See statements by the General Manager of Summa-Bansander in *La Segunda* (18th February, 1999).

As a result, when faced with disagreements with a given company's management or controllers, the protection mechanisms available to pension funds are: to sell out; to call and participate in - with the restrictions already mentioned - a special shareholder meeting to discuss the subject; or to initiate legal action in order to obtain compensation for any possible damages they may have suffered (in fact, and because the restrictions to negotiate a solution, AFPs are almost forced to initiate legal actions whenever they believe a decision by the company's management to damage the interest of the pension fund).

D. Other regulations

Below is a brief description of other regulations also affecting the role of pension funds in corporate governance.

D.1. Transactions in formal markets

The law states that almost all trading by pension funds - buying and selling of financial instruments - must be carried out in formal secondary markets (i.e. the registered stock exchanges) and through competitive deals.

This restriction, whose objective is to ensure fully transparent trading and that pension funds are invested and disinvested at market prices, limits AFPs' possibilities to use exit as a protection mechanism in case of disagreements with the management of a company, since it prevents them from negotiating the purchase and sale of share packages directly with other groups of shareholders.[10]

Actually, the authorities have recently interpreted this restriction in such a way that AFPs face restrictions to sell their shares in a tender offer, (OPA, in Spanish) because, almost by definition, transactions under an OPA are not done in the secondary market using a competitive bidding process.

D.2. Risk rating

Most of the financial instruments that may be acquired by pension funds

[10] See also section I.C.

have to be submitted to a risk-rating process. In the case of debt instruments issued by private corporations or financial institutions, risk is rated by private companies. Then the Risk-Rating Commission, a specialized institution that was created specially for pension funds, assigns a risk-rating to each instrument on the basis of two of these private ratings. The fund's maximum authorized percentage investment in the respective instrument will depend on this rating.

In the case of shares, regulations distinguish between those approved by the Risk-Rating Commission and those not needing approval, with a reduced limit (1 percent of the pension fund) for the whole group of investments in this latter category. In order for a company's shares to be "approved", and thereby be eligible for pension fund investment, the company must have a history of at least three years (with positive operating results for at least the last two) and comply with certain requirements related to their financial ratios.

The risk-rating requirements mandate companies seeking financing from pension funds, - either debt or capital - to ensure certain minimum standards of solvency and management quality, which serve to reduce their specific risk.

D.3. Minimum rate of return

Every AFP is required to demonstrate every month that the real return (inflation-adjusted) of its pension fund over the previous thirty-six months is greater than the average return obtained by the whole pension-fund industry during that period, minus 2 percent, or greater than 50 percent of said average return.

In the event of a given AFP not complying with that minimum, the AFP must pay the sum needed to make up the difference into the pension fund. To finance this deficit, there exists a "Yield Fluctuation Reserve", constituted when the return of the fund exceeds by 50 percent or 2 percentage points the average thirty-six-month return of the whole system; a "Reserve" which the AFP has to make up out of its own resources (see next section); and, if the AFP's contribution is insufficient and its shareholders do not supply the necessary additional capital, then the government has to provide the required funds (in which case the AFP's license is revoked).

Some analysts argue that this regulation encourages a “herding effect” among AFPs and that this effect is reinforced because the “average return”, representing the benchmark against which the performance of each individual AFP is measured, is calculated as an average which is weighted by the size of each fund, meaning in practice that the portfolio used for reference is that of the largest AFP.[11]

If this hypothesis - which has not been proved - were true, then this regulation would also have an influence on the role of pension funds in corporate governance, since it would disproportionately increase the capacity of some of them - especially the large ones - to influence the decisions of companies that would face the threat of a large-scale exit (selling of stocks) by all the AFPs dissatisfied with their administration.

D.4. Reserve

The law obliges AFPs to keep a reserve equal to 1 percent of the pension fund managed. This reserve is made in order to respond if the AFP does not comply with the rule of minimum return and to line-up incentives of pension fund managers with those of the managed fund.

Since this reserve represents the AFP’s most important asset (in December of 1999, the reserve accounted for 45.7 percent of the AFPs’ total assets) and it must be invested in units of the pension fund itself, it may be argued that this requirement favors activism by the pension funds in the firms in which they invest, since the fund managers are interested in ensuring a good return for their pension fund not only to strengthen their commercial position, but also to protect the value of their own investment.

E. Summary: impact of investment regulations on the role of pension funds in corporate governance

Investment regulations help to decrease supervision costs as well as political and management risk of pension funds. On the other hand, they also limit the possibilities of portfolio diversification of the pension funds and may have efficiency costs.

[11] The “herding effect” may exist not only because of regulation, but also because competition between AFPs may take away the incentives to differentiate their portfolios.

Investment regulation also has important effects on the role of pension funds in corporate governance, because of both what it allows and mandates and what it expressly forbids.

Thus, some regulations require AFPs to act in defense of their affiliates' interests; to take part and to vote in shareholder meetings; and to participate in "debtor clubs"; while a different set of regulations does not permit them to use some very effective monitoring and control instruments. For example, AFPs may not:

- Act in conjunction with other shareholders in order to influence the decisions of the company, or negotiate with the management or controllers.
- Give a public opinion regarding the situation of the company, or express such opinions to the management, board members or executives of the firm.
- Instruct board members to pronounce in a particular direction with regard to any matter affecting the company.

There are other regulations that also have effects on corporate governance. For example, the minimum required return regulation might produce a "herding effect", meaning that firms face the risk of a wide-spread exit decision on the part of AFPs if a group of them (especially the larger ones) are not satisfied with the company's performance. Also, the risk-rating requirement requires companies seeking funds from AFPs to submit to the discipline necessary to achieve investment grade.

II. IMPACT OF PENSION-FUND REFORM ON CORPORATE GOVERNANCE

Because the role of pension funds in corporate governance has been shaped by regulation, it is difficult to answer the question as to which effects of the reform are due to it, and which are due to the preferences, attitudes and investment policies of pension fund managers.

On the other hand, corporate governance practices and regulations have been also affected by other circumstances unrelated to the pension-fund reform.

Since there is no well-processed empirical evidence that would allow to isolate the impact of each one of these factors, our comments and conclusions about the influence of pension reform on corporate governance are based mainly on our own experience and on casual evidence from the Chilean case, but not on objective empirical tests.[12]

In our opinion, the development of pension funds and life insurance companies in Chile has influenced corporate governance in at least three different ways:

- The intensity and quality of firm monitoring has increased;
- The accumulation of pension funds assets and life insurance company reserves has had a material impact on capital market growth and this, in turn, has had beneficial effects on corporate governance practices;
- To protect social security funds, capital market regulations have been improved, with a positive impact on corporate governance.

A. Firm monitoring and control

A.1. The stock market

The role of pension funds on corporate governance has become relevant since 1985, when AFPs began investing in the stocks of open public corporations. In the first couple of years after 1985, pension funds invested mainly in the stocks of state-owned firms that were being privatized (most of them in the public utilities sector). Then they began to invest in a broader range of firms. As a proportion of the portfolio, investment in stocks peaked at 32.2 percent in 1994.

As we saw in section II, regulations force AFPs to behave like active shareholders, at least in shareholders' meetings.

However, AFP voting at shareholders' meetings is also explained because in some cases, pension funds face liquidity constraints that limit their possibility to use exit (selling the stocks) as a protective mechanism in case of bad performance or disagreement with the decisions of the company's management.

One indicator of the liquidity constraints faced by the AFPs may be

12 The author is a member of the board of two major companies in Chile, and has been elected mainly with pension fund votes.

obtained comparing the turnover rate (total transactions to market value ratio) in Chile with the same ratio in more developed markets. A study by Majluf *et al.* shows that while this ratio is 6.2 percent in Chile, in Japan it is 27.4 percent; in Germany 75.4 percent; in the UK 61.1 percent, and in the US 46.0 percent.[13]

A more direct indicator of this problem is the number of shares of each company held by the AFPs in proportion to that share's volume traded in a given month. Evidence shows that AFP investments can represent more than 20 months of trading in the stock exchange, and in most cases it accounts for more than 10 months' trading (See Appendix, Table 2).

A different explanation for AFP's interest in voting is that, in spite of the diversification rules that limit their maximum investment in each company,[14] for many AFPs their investments in the stocks of some firms represent a considerable part of their portfolio. In addition, when the AFP investment is considered as an aggregate, it is clear that they do indeed have the possibility of influencing the decisions of some firms, even if only by participating in shareholder meetings. Thus, in 1998, out of 98 firms where pension funds had investments, in 27 of them AFPs' aggregate share ownership was greater than 10 percent, and in 41 was greater than 5 percent. Out of 711 board members in these firms, 71 had been elected with pension fund votes (See Appendix, Table 3).

Another fact with a similar effect on the pension funds' role in corporate governance, is that in Chile ownership of firms listed in the stock exchanges is highly concentrated, whether by "families", "economic groups", or by international corporations.[15]

Therefore, in some cases pension funds are in the uncomfortable position of being minority shareholders (because of the legal restrictions) in firms that have a controller, but with not enough liquidity to use exit as a protection mechanism. In these circumstances, having the right to speak and vote is the most important tool for monitoring the performance of firms.

A different reason why AFPs may want to be active in monitoring and in trying to influence company decisions, is that the public opinion has proven extremely sensitive, not only to short-term changes in the total return of the pension funds, but also when some specific investment pro-

13 See Majluf, *et al.* (1998).
14 See section I.B.
15 See Lefort and Walker (2000).

duces a very bad result. AFPs are therefore under pressure when making their investment decisions, knowing that the consequences over the pension fund of a possible fall in the value of a particular stock will be exposed to the public and held up as an example of mismanagement or negligence. It is very possible that the explanation for this situation lies in circumstances that will change in the course of time, such as the still limited public knowledge regarding the nature of the financial operations of pension funds and the opposition to the social security reform that exists in certain sectors (which find in this type of situation an opportunity to criticize the system). However, for the moment this is a fact that influences AFPs investment styles and decisions.

Finally, it has been argued that pension fund activism might be the result of AFPs trying to influence the administration of the companies, not in order to protect the value of the pension funds, but rather to obtain benefits for themselves or related parties.

As explained before, the possibility that this agency problem might arise explains a series of regulations which limit the participation of the AFPs in each company, and the ways in which they can monitor their investments. Maybe because these regulations have been effective, or because AFPs have had no intention of damaging the funds in their own benefit, so far there is no evidence of this type of conduct.

To summarize, because of regulations; liquidity constraints; Chilean corporate ownership structure; and some pressures from the public opinion, it would seem that pension funds are "biased" towards an active role in corporate governance, at least in those cases where the market for that particular stock is not liquid enough. In any case, and also because of the regulation, this role has been limited to exercising voting rights in shareholder meetings.[16] Although this restriction has been important, it is still possible to identify certain positive effects of the pension fund reform on corporate governance.

First effect: Growing importance of independent board members

The mandate to participate in shareholder meetings and to vote for candidates who are not related to the controlling shareholders has led AFPs

16 In the recent part, pension funds have also used legal actions to protect their interests in cases of severe disagreement with the controllers of a couple of firms.

to elect independent board members in some of the companies in which they have investments.

As aforesaid, at the end of 1998, out of a total of 711 board members elected in the firms in which the AFPs have a share, 10 percent had been elected with votes from one AFP or another. In the case of firms under Chapter XII, that percentage was 37.5 percent. (See Table 3).[17]

TABLE 3
COMPOSITION OF BOARD OF DIRECTORS

Class of firm	Board members (Total of 99 firms)	Board members elected with votes from at least one pension fund
Chapter XII	80	30 (37,5%)
Other	631	41 (6,5%)
Total	711	71 (10,0%)

Source: Table 2 in the Appendix.

Although there is not enough empirical evidence to evaluate a possible positive correlation between the increasing role of independent directors and company value, circumstantial evidence suggests that independent and professional board members are helping to improve corporate governance in Chile.

Because of ownership concentration, Chilean pension funds interact with holders of large blocks of stocks - who may be families, local economic groups or foreign investors - and not with minority shareholders. So, one area in which the influence of independent board members seems to be particularly important is in monitoring potentially conflicting interests between majority and minority shareholders.[18] This explains why problems such as buying and selling assets to companies related with the controlling shareholder; the determination of transfer prices between the parent company and subsidiaries; the use of inside information by controllers; and the negotiation of management fees, usually attract most of the attention of independent board members elected with AFP votes.[19]

17 A definition of Chapter XII firms is in footnote Nr. 5.

18 Chilean corporate law and regulations pay far more attention to this problem than to potential conflicts of interest between shareholders and the company management - “agency problems”.

19 See Santander Investment (2000) for evidence on conflicts of interest between minority and mayority shareholders.

Also, as the number of independent board members grows, certain changes in the boards' internal organization have begun to occur. For example, there is some evidence that the number of specialized committees is increasing, including the case of firms that have set up an Audit Committee, whose job includes checking all operations with related parties.[20]

However, the potential influence of independent board members on corporate governance has been limited by some regulations which make it difficult for AFPs to keep an eye on the board members elected with their votes.

In the first place, corporate law states that board members, once elected, represent all shareholders and not a single group of them. Moreover, the regulations prevent board members from sharing information with any shareholder unless it is made public. At the same time, because of AFP restrictions to meet with board members of a given company (see chapter II), they only receive public information and, usually, they can not react until after a decision has been made by the company. Of course, they may sanction a board member that - in their opinion - is not doing a good job by not reelecting him for the position, but this will not help to compensate the possible damage to the pension fund, and may not even work in case of independent board members who, after being elected with pension fund votes, come in good terms with the controllers, getting their support in the following elections.

Second effect: Improvements in information quality

When pension funds started to invest in stocks, and due to the lack of a well-developed research industry, they based their opinions and their investment decisions on the work of their own research departments. Later, as the volume of funds became more important, scale economies in information collection and processing have been possible, and specialized research firms have emerged, including the research departments of investment banks and stockbrokers. This has helped to improve the quality and opportunity of information available in the market.

[20] In 1998 one AFP asked all firms whose stock was in its portfolio to introduce Audit Committees in their boards. The creation of Auditing Committees is also explained by the influence of foreign institutional investors and stock exchanges (such as, NYSE, Nasdaq, Amex) requirements on ADSs.

Also, a number of companies that have gone to the market in search of financing have had to respond to this growing demand for information coming from institutional investors, which has also helped improve the quantity, quality and timeliness of the data that they make public.

Third effect: Closer public scrutiny of management and controllers' decisions

Pension funds are part of a mandatory social security system and for this reason they are exposed to close public scrutiny, which extends to the firms where they invest. So, after the pension reform, decisions made by the management of firms in which pension funds are invested have become subjected not only to control by their own shareholders and the authorities responsible for supervising listed corporations,[21] but also to examination by all those who have interests in the pension system, including the Superintendency of AFPs.

This has helped to improve the accountability of managers and controlling shareholders.

Fourth effect: Impact of shareholder meetings

As the investment of AFPs in stocks has increased, the characteristics of shareholders' meetings have changed.

As explained above, shareholder meetings are almost the only instrument that AFPs can use in order to influence company decisions, because they offer an opportunity to express their opinion on company affairs. Moreover, regulations oblige AFPs to make a public statement on each of the matters discussed in these meetings.

Also, minority shareholders have begun to follow the opinions of AFPs at these meetings. Therefore, where there is active opposition to decisions that do not benefit all shareholders, this opposition will most likely be led by the AFPs and followed, in many cases, by other minority investors who have their same interests.

A different situation is that, because of AFP participation, shareholder meetings attract the attention of the press and the public opinion, which also helps to discipline the company controllers.

[21] In Chile's case, the Securities & Insurance Superintendency (SVS).

A.2. Pension funds as bondholders

Starks (1999) points out that the creditors of a company have a unique position in corporate governance because of the comparative cost advantage in monitoring firms. In Chile, pension funds hold more than 53 percent of all the long-term debt (bonds) issued by companies, so that it would be reasonable to expect them to exert a particularly important influence on corporate governance as lenders of major Chilean corporations.

However, Chilean pension funds seem not to have this kind of influence, since long-term bond financing in the local market has not been widely-used by local corporations.

For example, in December 1999, out of the total outstanding liabilities of 232 listed companies, only 6 percent was accounted for by debt in bonds. At that same date, the total amount of bonds issued was US$1.8 billion (a figure 27 percent lower than the maximum achieved in 1994) which correspond to only 35 companies.[22]

The slow development of the corporate debt market is attributable to various causes.

In the first place, the fixed costs associated with preparing, issuing and placing debt instruments are high with respect to the financing needs of the vast majority of Chilean companies. Secondly, those firms that are large enough to gain access to the internal debt market, also have access to other sources of funding, particularly in the international market, at competitive prices.[23] Finally, there are certain restrictions in the AFP regulations (e.g. risk rating), which make it very difficult for smaller companies, or those with a shorter commercial history, to place bonds in the pension funds (in Chile, possibly because of these restrictions, there is no market for "junk bonds").

Consequently, as lenders, the influence of pension funds on corporate governance has been limited to a few big firms. This influence has manifested itself in two ways. First, the regulations applied to pension fund investment have forced firms seeking to issue bonds to submit themselves to a risk-rating procedure, and although this was originally designed only for pension funds, it later extended to all issuers of publicly traded instruments.

[22] Excluding leasing and securitization companies.
[23] However currency matching requirements make local and foreign financing not perfect substitutes.

In the second place, pension funds and life insurance companies have used their bargaining power to improve the contractual protection offered to creditors by issuers of debt.

Thus, the participation of pension funds and life insurance companies in the long-term debt market may have helped to reduce the cost of monitoring corporations and to increase the quality of the information that firms provide for the market. However this process may be costly enough as to preclude smaller firms from entering this market.

B. Accumulation of pension funds and the size of capital markets

There is considerable evidence to support the hypothesis that the rapid accumulation of institutional funds following the social security reform in Chile is having positive effects on the development of the capital market. Some effects worth singling out are increased liquidity and competitiveness; greater efficiency; new incentives for the supply of new financial instruments; and the improvement of the legal framework.[24]

Not all of these changes have similarly important effects on corporate governance. We are particularly interested in those produced primarily by the growth in the transaction volume, as the pension funds and life insurance company reserves accumulate, and those that may be attributed to the improved legal framework (which shall be discussed in the following section).

B.1. Pension reform, total saving and financial saving

The replacement of a pension system with no financial reserves and in deficit, by another system which accumulates a fund, has effects on both the level of total savings and the level and composition of financial savings.

Although there is an intense technical debate regarding the magnitude and direction of these effects on the country's total savings, Chile's total savings appear to have increased following the pension reform.[25] This

[24] See Holzmann (1996), Iglesias (1997), Walker and Lefort (2000).

[25] See Schmidt-Hebbel (2000); Uthoff (1997).

happen because the government did finance pension expenditures using a combination of instruments - taxation; reduction in other spending; borrowing; and assets sales - and the result was an increase in public savings after the pension reform. On the other hand, the available evidence suggests that this expansion in public saving was not offset by falls in voluntary private saving, or by a fall in external saving. Moreover, the pension reform is believed to have had some indirect positive effects on private saving.

That the accumulation of pension funds has made a positive impact on financial savings and therefore on the size of the capital market, is a much less controversial assertion.

"Financial savings" can be defined as the portion of "total savings" that is intermediated through the capital market. After the pension reform, financial savings have grown not only because total savings did increase but also because the flow of mandatory contributions, which formerly went directly to finance pensions, have begun to be invested in financial assets issued by the public and private sectors and trading in the formal secondary markets. So, even if the pension reform were to have no effects on total savings, it would certainly have positive impact on the volume of financial savings.

Although there are no empirical studies that might help us know how much of the growth in the volume of financial assets during the past two decades can be explained by social security reforms (a series of other changes that also affected saving took place in Chile alongside the pension reform), casual evidence suggests that its influence has been significant.

B.2. Capital market growth and corporate governance

The growth of financial saving after pension reform reform had some positive effects on total saving and a significant impact on financial saving. The latter has contributed to the development of the capital market during the 80's and 90's (See Table 4). This expansion in capital market size (measured by volume of financial assets; transactions; or number of firms with listed securities) had several consequences on corporate governance.

TABLE 4
CHILE: INDICATORS OF CAPITAL MARKET DEVELOPMENT

	Financial Assets (Mill. U$ 1997)					Transactions in secondary markets (Mill. U$. 1997)		Firms registered in secondary markets		New offerings (2)	
		Debt (1)			Equity (1)	Debt	Equity	Debt	Equity	Debt	Equity
	Total	Bonds	Debt	Others							
1980	2591	57	813	1721	10540	N.D.	N.D.	7	263	4	39
1981	3127	99	1616	1413	7219	1591	381	7	241	13	37
1982	3616	458	1828	1329	7016	4375	179	12	210	9	26
1983	5733	458	1994	3280	4019	2679	90	13	211	2	18
1984	6518	471	2276	3771	3877	2508	72	15	208	5	10
1985	7245	514	2349	4382	4202	6328	103	16	215	3	29
1986	7759	436	2423	4900	8048	14327	583	8	215	3	26
1987	8670	766	2306	5598	9893	20622	939	14	211	93	33
1988	10732	1248	2452	7032	12182	32823	1131	19	203	12	22
1989	12537	1900	2643	7994	16422	45585	1465	23	213	10	21
1990	16878	2420	2871	11587	21025	88269	1359	27	216	16	23
1991	21243	3132	3322	14789	40438	98549	3293	37	223	19	32
1992	23771	3152	3798	16821	38768	102278	3692	39	244	12	31
1993	25061	3303	4520	17239	58621	179413	5317	40	263	5	39
1994	28969	3632	5985	19352	76510	231163	8308	46	277	14	47
1995	31426	3328	7592	20505	74925	332018	14484	46	282	6	47
1996	34579	3141	9145	22292	67848	399478	12143	47	289	5	51
1997	37806	2439	10452	24915	71831	460544	9931	45	330	7	51

Source: PrimAmérica Consultores based on information by the SVS
(1) It does not include Mutual Funds
(2) A firm can register more than one offering in the same year.

In the first place, the increase in trading volume has allowed economies of scale to be made in the process of placing debt securities and stocks and in intermediation, thus reducing the cost of market financing for companies. The improvements in regulation (that will be discussed in the next section), have also contributed significantly to this result, allowing substantial reductions in information and monitoring costs. Also, the expansion in the volume of transactions facilitated the appearance of two new secondary markets - the Electronic Stock Exchange in Santiago and the Valparaíso Stock Exchange. This has served to increase competition in the intermediation market. All these changes have helped to increase the investor base (shareholders and bondholders) of firms. In turn, this greater participation of non-controlling stakeholders has served to improve the accountability of the companies' managers. Moreover, increased liquidity has allowed - at least small investors - to use exit as a protection mechanism in the case of firms performing below expectations. So managers who want to protect the market has value of their firms, could now be more sensitive to how minority shareholders perceive the performance of the company. Also, the growth of the market has helped to attract foreign investors - including institutional investors - and they have also played an important role in improving corporate governance.

The larger market size also made it possible to reach economies of scale in the business of collecting and processing information on the companies, which has facilitated the development of a specialized company-analysis and risk-rating industry. This, in turn, has served to improve substantially the quality and timeliness of the information available for company shareholders and bondholders, thus improving their possibilities of effective monitoring.

B.3. Capital market regulations

In order to reduce investment risks and the cost of government guarantees in the social security system, pension reform has forced regulators to create a new legal framework not only for the pension industry, but also for capital markets and the banking sector, within a very short time span. The new regulations have had a strong influence on corporate governance. At the same time, the pension system itself has benefited from the modernization of the capital market, and the regulations applied to pension fund investments have been modified repeatedly in order to allow the AFPs to make the most of the new market opportunities, and thus to further diversify their portfolios.[26]

Two legal reforms whose origin is associated directly with the pension reform and that may have contributed the most to the improvement of corporate governance are: the introduction of a mandatory risk-rating system (in 1985) and the development of special regulations for controlling conflicts of interest in capital market operations (1995).

Also, new changes in corporate laws are already under discussion in Congress, including a mandatory mechanism for public offerings, in the case of a group of shareholders trying to take over control of or increase their participation in the company, and the mandatory introduction of Audit Committees as part of the Board of listed corporations.

III. FINAL COMMENTS

Evidence from Chile shows that the pension reform has had a positive influence on corporate governance.

This influence has become apparent directly in the active participation of pension funds as shareholders in some of the bigger Chilean corporations and also, indirectly, through the effects of the social security reform on the size and regulation of the capital market, plus the subsequent results of these changes on the intensity and quality of monitoring to which Chilean companies are subjected; the quality of supervision; and the quality and timeliness of the information received by investors.

The role of pension funds as monitors of firms where they invest has been greatly influenced by certain characteristics of the market (especially its lack of liquidity, which remains low, and high ownership concentration) and particularly, by investment regulations.

Investment regulations on pension funds with an impact on corporate governance have different objectives. On the one hand, regulators understand that effective participation of pension funds in corporate governance is important for the protection of their interests, but they also want to

[26] Vittas coined the term “dynamic interaction” to describe this process.

avoid the risk of pension fund managers influencing the firms in which the funds are invested, in a way contrary to the interests of the affiliates.

We have seen that a mix of regulations has being used to “balance” the different objectives of the law. So, the AFPs have been forced to become activist, but in one single way, namely by taking part and voting at shareholder meetings, since they can not express their opinion in public on the progress of the businesses, or try to influence management through collective actions with other minority shareholders or by direct negotiations with the controllers.

We believe that the prohibition to AFPs to express their opinion about the affairs of companies they invest in, deprives pension funds of a very effective method for improving corporate governance. Neither do we see any valid reason for this prohibition, since expressing an opinion about a business does not mean becoming involved in management decisions. Also, the restriction on collective actions limits the capacity of an AFP, and therefore of minority shareholders, to influence management or to negotiate compensations in case that some decision hurts their interest. In some opportunities, the lack of clarity of some rules and regulations that can be interpreted in different ways also disincentive AFPs to be more active in defending their opinions regarding company decisions or to react against a management decision with which they disagree.

The Chilean case helps understand that improvement in corporate governance practices and institutions is not necessarily a result of pension reforms by themselves. In fact, the influence of a pension reform on corporate governance will depend on the characteristics of such reform; on the characteristics of the regulation on pension fund investments; on the degree of co-ordination between pension reform and reforms to the capital market; and also on the degree of development that the capital market already had before the pension reform.

Corporate governance practices evolve as a result of both law and tradition.[27] But tradition changes very slowly and in Chile, corporate governance, and especially the protection of minority rights, had not been a relevant subject before pension reform. Therefore, when pension reform is carried out in countries with under-developed capital markets, there will be more significant impact on corporate governance as compared with the

[27] See Vittas and Michelitsch (1995).

same reform carried out in countries where institutional investors are already playing an important role within a more developed capital market.

Also, a reform to social security systems that leads to the accumulation of a pension fund of significant size and allows investment in stocks and debt issued by the private sector, will have a greater impact on corporate governance than a reform which for example, allows only a small proportion of social security contributions to be accumulated in a fund, or forces the funds to be invested in government debt instruments.

Finally, when (as in the Chilean case) the pension reform is accompanied by improvements in the regulations of the capital markets, a greater effect on corporate governance should be expected.

Chile is a case where, in spite of some regulations, pension reform has had a positive influence on corporate governance. That influence should be valued and taken into consideration when assessing the positive externalities of pension reform. However, it is also necessary to realize that the influence of pension funds on corporate governance changes over time. Again in the case of Chile, at least three different stages could be distinguished:

- While pension funds were investing mainly in government debt and bank deposits, their impact on corporate governance was limited.
- When pension funds began to invest in stocks, their influence did become important. This is because some markets were not liquid; the diversification possibilities were limited; and AFPs share in the ownership of many companies was considerable. So, in many cases AFPs were active shareholders and bondholders. Also, in this period capital market regulation was improved, and some of these changes did have an impact on corporate governance.
- In the future, as market liquidity increases and portfolios become more diversified in the local market, thereby decreasing AFPs share in the ownership of each company, the benefit to monitoring individual companies will also decrease. This will also happen as pension funds continue their international diversification. Thus, in this third stage the influence of pension funds on corporate governance may be reduced. We have yet to see if other institutional investors will take their place.

APPENDIX

TABLE A.1
LATIN AMERICA: REGULATIONS TO AFP'S ROLE AS SHAREHOLDERS

	Chile	Argentina	Colombia	Perú	Bolivia
1. Can the AFP's participate in shareholders meetings?	Yes	Yes	Yes	Yes	Yes
2. Are they forced by law to assist at shareholders meetings?	Yes	Yes	No	No	N.R.
3. Voting procedures por members of the board		N.R.	N.R.		N.R.
· Board of the AFP must approve the names of candidates	Yes		Yes		
· AFPs must make public their vote	Yes			Yes	
· AFPs can vote for:					
- Candidates that are related controlling shareholders	No			No	
- Candidates that are related the AFP	Yes			No	

Source: Iglesias and Majluf (2000).
N.R. Not regulated.

TABLE A.2
PENSION FUNDS: LIQUIDITY RESTRICTION FOR CHANGES IN STOCK PORTFOLIO
(DECEMBER 1999)

COMPANY	STOCK OWNED BY AFP (%) (1)	STOCK TRADED (DECEMBER, 1999) (2)	TURNOVER POTENTIAL FOR AFP'S (MONTHS) (1) / (2)
TITLE XII [1]			
CHILGENER	33.75%	1.59%	21.21
CHILQUINTA *	9.33%	3.82%	2.44
COLBUN	2.05%	0.34%	6.03
CTC A *	18.23%	0.76%	24.03
CTC B	19.11%	0.37%	51.07
ENDESA *	10.90%	0.49%	22.21
ENERSIS *	12.68%	0.56%	22.81
ENTEL	14.08%	2.78%	5.07
IANSA	32.74%	0.98%	33.28
LABCHILE *	23.44%	2.15%	10.89
PILMAIQUEN	22.69%	1.06%	21.46
SOQUIMICH A *	28.24%	0.92%	30.64
SOQUIMICH B *	26.86%	7.82%	3.43
OTHERS			
CINTAC S.A.	20.69%	0.92%	22.48
MASISA *	19.43%	0.52%	37.30
FOSFOROS	17.58%	4.28%	4.11
CAP	16.47%	0.67%	24.59
SANTA RITA	14.02%	0.07%	193.65
NAVIERAS	13.88%	0.03%	471.93
CRISTALERIAS *	13.44%	0.39%	34.27
CONCHATORO *	13.20%	0.28%	47.02
ESVAL A	12.36%	0.19%	63.75
EMELAT	12.19%	0.00%	-
TELSUR	12.15%	0.27%	45.82
CREDITO	11.95%	0.21%	56.50
CTI	11.65%	0.75%	15.46
SAN PEDRO	10.42%	0.57%	18.43
PARAUCO	10.04%	5.81%	1.73
CMPC	9.70%	0.67%	14.43
ELECMETAL	9.07%	0.04%	235.95
TERRANOVA	8.91%	0.52%	17.25
ENAEX S.A.	8.84%	0.04%	210.70
PUCOBRE A	8.73%	0.58%	15.06
SOQUICOM	8.71%	0.86%	10.17
ZOFRI	7.67%	6.15%	1.25
FASA	6.49%	1.74%	3.73
CERVEZAS *	6.30%	0.35%	18.22
COPEC	6.23%	0.36%	17.30
ENERQUINTA	6.03%	0.00%	-
PARIS	5.48%	0.38%	14.33
EDWARDS *	5.27%	0.65%	8.17
CEMENTOS BIO-BIO	5.12%	0.24%	21.17

Source: PrimAmérica Consultores estimates
(1) For a description of "Title XII" companies, see footnote Nr. 5.
* Firm with ADSs. ADR transactions are not included in column (2), so column (3) overestimates the turnover period for those firms.

TABLE A.3
AFP: PARTICIPATION IN OWNERSHIP OF FIRMS AND ELECTION OF BOARD MEMBERS
(DECEMBER 1998)

TITTLE XII STOCKS	by pension funds	% Pension Funds invested intra company	Total board members	Board members elected with pension fund votes
CHILQUINTA *	13.89%	0.14%	7	0
COLBUN	1.06%	0.01%	7	1
CTC A *	19.41%	2.90%	6	2
CTC B	16.70%	0.16%	1	0
ENDESA *	26.07%	2.48%	9	4
ENERSIS *	29.26%	3.05%	7	4
ENTEL	18.88%	0.11%	9	3
GENER *	33.88%	1.45%	7	4
IANSA	34.83%	0.22%	7	3
LABCHILE *	19.80%	0.15%	7	3
PILMAIQUEN	22.11%	0.01%	5	2
SOQUIMICH A	13.49%	0.64%	7	4
SOQUIMICH B *	12.17%		1	0
SUBTOTAL		11.3%	80	30
OTHER STOCKS				
ANDINA A *	2.50%	0.14%	6	0
ANDINA B *	2.43%	0.13%	1	0
BANCO SANTIAGO *	2.41%	0.10%	11	0
BANMEDICA	4.39%	0.02%	9	3
BESALCO	0.33%	0.00%	5	1
BHIF *	0.77%	0.01%	9	0
CAMPOS	1.95%	0.00%	5	0
CAP	15.74%	0.12%	7	2
C.C.T.	1.44%	0.01%	5	0
CEMENTO MELON	0.04%	0.00%	7	0
CEMENTOS BIO-BIO	5.15%	0.02%	7	1
CERVEZAS *	7.35%	0.29%	9	0
CGE	2.14%	0.07%	7	0
CHILECTRA *	2.86%	0.18%	7	0
CHOLGUAN	0.77%	0.00%	5	0
CIC	5.48%	0.00%	7	0
CINTAC	20.93%	0.03%	7	2
CMPC	9.17%	0.38%	7	0
COLINA	0.06%	0.00%	7	0
COLOSO	3.94%	0.01%	9	0
CONATEL	10.66%	0.04%	6	1
CONCHATORO *	13.06%	0.16%	7	0
CONOSUR	0.16%	0.00%	5	0
COPEC	5.86%	0.54%	9	1
CREDITO	11.62%	0.19%	9	1
CRISTALERIAS *	12.90%	0.12%	10	1
CRUZSALUD	0.55%	0.00%	7	2
CTI	12.52%	0.03%	7	0
D&S *	0.15%	0.00%	5	0
DETROIT	2.38%	0.00%	5	0
EDELMAG	4.36%	0.01%	7	1
EDELNOR	1.15%	0.00%	7	0
EDWARDS - A	3.78%	0.04%	9	0
ELECDA	1.46%	0.00%	7	1
ELECMETAL	9.50%	0.05%	7	1
ELECT COQUIMBO	1.87%	0.01%	5	0
ELIQSA	5.64%	0.01%	7	1
EMELARI	5.15%	0.01%	7	1
EMELAT	12.07%	0.03%	7	1
EMELSA	0.76%	0.01%	7	0
ENAEX	9.72%	0.05%	9	1

TABLE A.3 (Cont.)

OTHER STOCKS	% Stocks owned by pension funds	% Pension Funds invested company	Total board members	Board members elected with pension fund votes
FALABELLA	0.42%	0.01%	9	0
FASA	3.59%	0.01%	7	1
FOSFOROS	14.75%	0.02%	7	1
GASTGO	2.58%	0.03%	7	0
INDUGAS	4.53%	0.00%	7	1
INFORSA	4.74%	0.02%	7	0
INMURBANA	0.64%	0.00%	5	0
INVERCAP	2.59%	0.01%	7	1
ITATA	4.56%	0.00%	6	1
LUZ A	5.39%	0.00%	9	0
MADECO*	4.49%	0.05%	6	1
MADERAS	0.88%	0.00%	5	0
MAINSTREAM	2.96%	0.00%	7	1
MANTOS	1.84%	0.01%	6	0
MARINSA	1.08%	0.00%	10	0
MASISA *	18.03%	0.11%	5	1
MINERA	0.01%	0.00%	5	0
NAVIERAS	13.88%	0.02%	5	1
PARAUCO	6.55%	0.04%	7	1
PARIS	5.94%	0.06%	9	1
PIZARRENO	4.13%	0.02%	7	0
POLAR	2.16%	0.01%	7	0
POLPAICO	0.15%	0.00%	6	0
PUCOBRE A	8.00%	0.01%	8	2
QUEMCHI	0.92%	0.00%	7	0
QUIÑENCO *	0.17%	0.00%	9	0
QUILICURA	1.79%	0.00%	7	0
RIO MAIPO	1.44%	0.01%	5	0
SAESA	0.33%	0.00%	7	0
SAN PEDRO	7.66%	0.02%	7	1
SANTA CAROLINA A	3.32%	0.01%	7	1
SANTA CAROLINA B	2.29%	0.00%	1	0
SANTA ISABEL *	0.09%	0.00%	5	0
SANTA RITA	14.15%	0.06%	10	2
SANTANDER *	0.98%	0.05%	11	0
SECURITY	1.32%	0.00%	9	0
SIPSA	1.21%	0.00%	7	0
SOMELA	5.19%	0.00%	5	0
SOQUICOM	8.48%	0.01%	5	0
SUDAMERICANO	0.51%	0.00%	11	0
TELCOY	1.95%	0.00%	6	0
TERRANOVA	16.96%	0.05%	6	2
TRICOLOR	3.85%	0.01%	7	0
VAPORES	2.41%	0.02%	11	0
VENTANAS	2.37%	0.00%	7	0
VOLCAN	0.10%	0.00%	7	0
ZOFRI	10.90%	0.03%	7	0
SUBTOTAL		3.60%	631	41
TOTAL BOARD		14.92%	711	71

Source: Estimates by PrimAmérica Consultores based on information of the SAFP and Duff & Phelps

* Firm with ADSs.

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