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PUERTO RICO'S INVESTMENT BANKING OUTLOOK

MIGUEL A. FERRER,

President, PaineWebber Incorporated of Puerto Rico

In September 1986, I had the pleasure of speaking at a meeting of this organization. The subject for the activity was Venture Capital. My presentation dealt with some of the strategies we believed the Commonwealth Government could implement to induce local venture (risk) capital formation.

Today the pleasure of speaking to the Venture Capital Club audience repeats itself. This time the subject is Investment Banking. Given Venture Capital and Investment Banking are close relatives (the second is the older, more conservative, squarer brother) I took a close look at the notes I prepared for my previous presentation.

The review of those notes was a revelation. It brought into sharp focus the breath and depth of the changes our government has introduced to Puerto Rico's financial scenario during the past 18 months:

ITEM: The Industrial Incentives Act was revised to give Fomento a more powerful and flexible law/working tool.

ITEM: The island's tax laws were reformed and simplified while keeping in place all savings/investment inducement legislation of recent manufacture such as:

* The maximum 17% tax on interest income from bank deposits.

* The Special Partnerships Law which, in a nutshell, stimulate investments in business areas of social interest thru tax advantages.

* The tax rate for capital gains and dividends was pegged at an advantaged rate (20% vs. as much as 50% for ordinary income).

ITEM: The Capital Venture Fund was created. This law allows the establishment of venture funds to provide capital financing for innovative or high technology start-ups. To motivate investor interest in the venture funds, the law transfers the investment risk from the investors to the government; i.e., venture fund investors can immediately tax credit 25% of their investment, receive, if the venture is profitable, up to 90% tax-free dividends, or, if the venture fails, be able to write off 100% of their investments thru tax credits.

Viewed in structural terms, these governmental action steps have:

Eliminated many of the legal knots which prevented local capital from institutionally funding local businesses in the past.

Established the conditions under which new, tax-advantaged vehicles designed to channel capital flows to projects of social or public interest can be privately organized.

Or, to put it another way, a significant number of the items in the financial sector's wish book have been granted.

The fact the ball is in our court means we have reached an important milestone in the island's financial history.

From this point on the future of investment banking in Puerto Rico depends on the educational ability of our industry.

In other words now we must educate both entrepreneurs and investors, those who need and those who can supply capital, on how they can benefit from our new set of circumstances.

In the process we must help to change provincial but strongly rooted fears.

Local businessmen, for example, must come to see and understand that in some cases the best or only way to continue winning is by sharing their enterprise with others.

At the same time we will have to educate those seeking capital for their projects on the realities of the financial markets which, in general terms, will not move unless:

The idea behind the project creates enthusiasm,

Its management is both committed and experienced,

Its business/financial plans are credible and

It promises a return on investment proportionate to the risks involved.

Finally investors must be shown, offered and familiarized with the new investment alternatives which are rapidly coming on stream.

Clearly Puerto Rico is about to come of financial age.

If the investment banking community accepts the challenge of maturity, and accordingly puts on its long pants, Puerto Rico could have a very bright future indeed.

Thank you.