

BEST

**BRAZIL:
EXCELLENCE IN
SECURITIES
TRANSACTIONS**

FOREIGN INVESTORS GUIDE

HOW TO INVEST IN THE BRAZILIAN FINANCIAL MARKET

According to legislation, non-resident investors (“foreigners”), whether individuals or legal entities, may invest their funds in the same financial and capital market instruments and operational modalities available to resident investors. The operating mechanism is the same¹ irrespective of the market where the funds are invested. Investors must hire a representative in Brazil and complete the form attached to Resolution 2,689.

Investors must also name their tax representative, who is usually the same representative required by Resolution 2,689 above mentioned, and hire securities custodial services. Investment financial transactions abroad may be carried out only by acquiring foreign exchange². Investors are also subject to a series of other requirements like registering with the Brazilian Central Bank and the Federal Revenue Service, opening of account, filling out the registration form, etc., as detailed in the following tables.

In recent years, several operational measures were implemented to make operational foreign investment flow simpler and speedier. In this regard, almost all registration, except in the Individual Taxpayer Registry (CPF), now is made electronically and usually centralized in one (or a few) financial institution(s) that provide diverse services (as legal and tax representatives, custodians and settlement banks for exchange contracts). Also, there are additional facilities for investors operating as participants in collective accounts (“passengers”) to be included in representative and custody contracts signed by the respective account holders. Furthermore, the RDE (Electronic Declaratory Registry) is unique for all the transactions in the collective accounts.

The following tables summarize the operational aspects involved in such operations.

Table 1.1	
Representatives in the country	
Nomination	Before beginning operations, non-resident investors must nominate one or more representatives in the Country*.
Conditions	<p>If an Individual, must be a person resident and domiciled in the Country.</p> <p>If a Corporation, must be legally established, organized and able to operate within the Country.</p> <p>In the case it is a non-financial Individual or Corporation, the investor must in addition nominate a financial institution or other duly authorized by the Brazil Central Bank, which will be co-responsible for the fulfillment of the obligations provided by the applicable regulations.</p>

¹. There are two investment types not covered by Resolution 2,689 and have specific regulation: Depositary Receipts (Resolution 1,927) and forward, futures and options contracts referenced to agribusiness products, traded on the Brazilian Commodity and Futures Exchange (BM&F - Resolution 2,687) – see tables III.7 “a” and “b”.

². In case of foreign funds invested exclusively in the Brazilian stock markets, foreign exchange may be acquired by the Central Securities Depository (CBLIC), and this company must be indicated as the beneficiary or sender in the respective payment instrument. In case of agribusiness derivatives operations (mentioned in the note above), BM&F is responsible for acquiring foreign exchange relating to the operations of its clients.

Attributions/ Obligations	<ul style="list-style-type: none"> - To keep under its guard and present to the BC (Brazilian Central Bank) and CVM (Brazilian SEC), whenever requested, the identification form and representation agreements signed with the investor, as well as bonds and securities custody agreements; - To make, file and keep updated with CVM and BC all the required registrations (see Table 1.2); - To provide to BC and CVM any requested information; - To certify the investor's signature contained in the identification form; - To promptly communicate to BC and CVM the cancellation of the representation agreement, as well as the occurrence of any abnormalities that may come to its knowledge; - To pay to CVM the quarterly due inspection fee.
Relevant Provisions	<ul style="list-style-type: none"> - When it is the case of a collective account, the participating investor may adhere to the agreement executed between the account holder and his representative, by signing the Term of Adhesion; - The representative's failure to comply with his obligations will lead into the impediment of the performing functions, having the investor to designate a substitute.

* It is not necessarily the same representative as required by the fiscal legislation (see chapter IV), however, in practice, it tends to be the same.

Table 1.2

Compulsory registries	
Brazilian SEC (CVM)	<ul style="list-style-type: none"> • Before beginning operations and after filling in the identification form, the investor must, through his representative, obtain the registry at the Brazilian SEC (CVM); • The registry is done at the CVM website (www.cvm.gov.br); • CVM provides the registry within 24 hours after the representative's request; • The registry number (code) attributed by CVM must be in all operations performed in the name of each investor participating in collective account or holder of own account; • Code structure (aaaaa.bbbbbb.cccccc.X-Y): aaaaa-representative code, bbbbbb-holder of own or collective account, cccccc-individual investor code, X-equal to 0, if own account and equal to 1 if collective account, Y-verification digit; • CVM may suspend or cancel the non-resident investor's registry who does not comply with the requirements established by the regulation.
RDE – Electronic Declaratory Registry	<ul style="list-style-type: none"> • Resources entering the Country must be registered at the Central Bank in statement form and through electronic means (RDE – Electronic Declaratory Registry); • The initial RDE and its updates (investments, redemptions, revenues, capital gains, transfers) are compulsory requirements for any resource movement abroad, and the respective number must be stated on the exchange rate contract (in the proper field); • Registries are done by specific transactions of Sisbacen – Central Bank Information System; • In case of non-compliance with regulations, the Central Bank shall suspend the registry and any movement will be interdicted until all irregularities are corrected.

CNPJ¹/CPF² at RFB	<ul style="list-style-type: none"> • Non-resident investors are obliged to be registered at CPF or CNPJ in order to be able to invest in financial and capital markets in the country; • The CNPJ is automatically obtained by CVM at RFB (Brazilian IRS), within 24 hours (usually) after the investor is registered at CVM; • To be registered at CPF the investor must contact a RFB (Brazilian IRS) unit or the Brazilian diplomatic representative in the country he is.
<p>1 - CNPJ - Corporate Tax Registration. Managed by the Brazilian Inland Revenue Service, registers legal entities information. 2 - CPF - Brazilian Individual Taxpayer Registry. Identifies individual taxpayers at the Brazilian Inland Revenue Service.</p>	

Table 1.3

Investor qualification and condition		
Qualification and CVM Code	a) Commercial banks, investment banks, saving and loan association, global custodians and similar institutions, regulated and supervised by government authorities.	101
	b) Insurance companies, regulated and supervised by government authorities.	102
	c) c) Societies or entities with objective of distributing securities, or acting as brokers in securities trading, on their own behalf or of third parties, registered and regulated by entities certified by CVM.	103
	d) Pension funds, regulated by government authorities.	104
	e) Non-lucrative entities, if regulated by government authorities.	105
	f) Any entity having as objective fund application in financial and capital markets, where the participants are exclusively individuals and legal entities resident and domiciled abroad, duly registered and regulated by entities certified by CVM.	106
	g) Any entity having as objective fund application in financial and capital markets, where the participants are exclusively individuals and legal entities resident and domiciled abroad, and the portfolio administration is done, discretionarily, by a professional administrator, registered and regulated by entities certified by CVM.	107
	h) Other collective investment funds or entities.	108
	i) Legal entities constituted abroad.	109
	j) Individuals residing abroad.	110
Account types	<ul style="list-style-type: none"> - Own account holder – may operate only in his own name; - Collective account holder – may operate in his own name and on behalf of other non-resident (“passengers”) investors. Must be qualified for items “a” to ‘h” here above; - Collective account Participant – client of the collective account holder. 	

Other Conditions	<ul style="list-style-type: none"> - To be qualified for items “c”, “f” and “g”, CVM certifies entities meeting at least one of the following requirements: <ul style="list-style-type: none"> I – to have signed the CVM Memorandum on Cooperation and Understanding; II – to have adhered to IOSCO – International Organization of Securities Commissions Resolution on Cooperation and Mutual Assistance, or have signed the Declaration referred to IOSCO Resolution on Commitment to Basic IOSCO Principles of High Regulatory Standards and Mutual Cooperation and Assistance; III – to be subordinated to the regulatory body of his country of origin, or committed to exchange information with this body, if it follows one of the established criteria in previous clauses, and has power to send to CVM information regarding the investor requester of the registration, or IV – to be IOSCO members and are directly committed with CVM to exchange information on the investor requester of the registration, in the terms of declaration of clause II here above.
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Table 1.4

Information to be submitted and other obligations	
Information	<ul style="list-style-type: none"> - To the Brazilian Central Bank: on a monthly basis, up until the fifth working day of the subsequent month, custody services provider institutions must inform, on a separate and individualized basis by investor, about custody positions held (application software available at the BC web site); - To the CVM: the representative shall submit, on a monthly basis, up until the fifth working day of the subsequent month, non-resident investors information (aggregated data), by means of the document “Informe de Investidores Não Residentes por Titular” (Information on Non-resident Investors, by holder), and, on a half-yearly basis, up until the 15th day of the immediately subsequent month after the end of the semester (individual and detailed data), by means of the document “Informe de Investidores Não Residentes por Passageiro” (Information on Non-resident Investors, by Passenger) (files available at the CVM web site).
Custody Agreement	<ul style="list-style-type: none"> - The investor intending to operate as account holder must sign or execute, either directly or through his representative, a bond and securities custody providing services agreement with an institution duly authorized by the CVM. Collective accounts participants can adhere to the agreement of said account holder, as long as all the custody operations and registrations be segregated by participating; - The investor may be a holder and participate into more than one account. In the case he opts to keep his bonds and securities into separated custody accounts or into more than one custody institution, custody agreement must contain a clause informing about operational proceedings for movements between accounts and the corresponding information flow; - When the investor operates through a foreign institution, custody agreement may be signed by the foreign institution, on behalf of the investor, provided that the custodian institution makes sure that the investor is duly registered and filed at the foreign institution (see the item “register”).
Transfers	<ul style="list-style-type: none"> - Provided that the non-resident investor has the same individual code, funds transfers between different accounts can be made. For this purpose, the investor’s representative must previously inform to CVM both originating and destination accounts, the date, the amount and the assets transferred; - The transfers of custody position between non-resident investors done abroad, deriving from merger, take-over, split-up and any other changes on equity holding positions, as well as those deriving from ‘moris causa’ succession, depend upon a previous authorization by CVM, being the legal representative obliged to submit to the Commission a copy of the documentation that supports the referred event.
Remittances Outside the Country	<p>On currency remittances outside the country on the basis of incomes, earnings and capital gains, the intervening bank is responsible for checking the documents to be presented by the custodian institution or the investor’s representative, which shall clearly demonstrate the earnings distribution, the ownership and sale of the assets that had generated those earnings or that were sold, and the payment of all the taxes due.</p>

**Registration
with a Local
Brokerage
House**

- As local brokerage house's customers, non-resident investors must fill in an enrollment form with these institutions, which will then become responsible for keeping it updated. That enrollment must at least contain the information required by the norms and rules covering the combat against money laundering crimes. It shall, in addition, contain the names of the persons authorized to issue orders, as well as the legal representative or responsible entity for the custody of bonds and securities.
- Alternatively to "full" enrollment, brokerage houses may do the enrollment in a "simplified" way, according to the norms and rules established by stock exchanges and organized over-the-counter market managing entities, provided requirements concerning recognition of the relationship with global custody entities which exercise the custody activity of bonds and securities for non-resident investors are fully complied with. Therefore, the execution of an agreement between the local brokerage houses and the foreign brokers becomes compulsory.

AVAILABLE INVESTMENT TYPES

As previously mentioned, non-resident investors may invest their funds in all the available types in Brazilian financial and capital markets. This chapter describes the characteristics and definitions of the main securities, assets and other financial instruments, their trading and settlement methods, and the regulations specific to foreign investors (see the tables).

2.1 - General Applications Rules

Table 2.1

General applications rules	
Registration	<ul style="list-style-type: none"> - Financial assets, securities and other modalities of financial operations must, according to its nature: <ul style="list-style-type: none"> a) be registered, custodied or kept in a deposit account of a institution or entity authorized by the Central Bank (CB) or by CVM; or b) be registered, in register, settlement and custody systems certified by the CB or authorized by CVM. - Operations in derivatives markets or other futures markets, can only be done or registered in Stock Exchanges, BM&FBovespa, over the counter markets organized by entities authorized by CVM, or registered in register, settlement and custody systems certified by the CB or authorized by CVM.
Bans/ Exceptions	<ul style="list-style-type: none"> - It is not allowed to do operations resulting from acquisition or alienation: <ul style="list-style-type: none"> a) out of Stock Exchange sessions, of electronic systems, or over the counter markets organized by entities authorized by CVM, of open companies securities registered for trading in these markets; b) of securities traded in over the counter markets not organized or organized by entities not authorized by CVM. - Excluded from above banning are the hypotheses of subscription, discount, conversion of debentures into stock, securities referenced indexes, acquisition and alienation of open investment funds quotas, and if previously authorized by CVM, delisting of shares cases, cancellation or suspension of negotiations, judicial transaction judicial and negotiation of stock linked to shareholders agreements. - It is banned to do transfers or legal entitlement cessions abroad, of investments or bonds or securities, except in cases of transfer resulting from merger, incorporation, corporate break-up and other societies alterations done abroad, as well as cases of succession by inheritance, observing the regulation requirements.

2.2 - Federal Government Bonds

Table 2.2.1	
General features	
Primary Market	<p>Public auctions</p> <ul style="list-style-type: none"> - Conducted by the National Treasury according to a monthly schedule available at www.tesouro.fazenda.gov.br¹ - The characteristics of each offering are announced through an Ordinance of the National Treasury Secretariat (STN). - Proposals must be submitted through banks, branch offices of the Caixa Economic Federal bank, brokers and distributors, credit, financing and investment companies, and real estate credit companies. - After scrutiny by the system, the results are announced to the participants and made available at www.tesouro.fazenda.gov.br/divida_publica/leiloes.asp and www.bcb.gov.br/?selicedital² <p>The Treasury Direct Program</p> <ul style="list-style-type: none"> - Public offerings for resident individuals, without the holding of auctions (www.tesouro.fazenda.gov.br/tesouro_direto). - Securities are repurchased by Treasury on a weekly basis.
Secondary Market	<p>Definitive - Purchase/sale operation.</p> <p>Repos - Purchase/sale of securities with resale/repurchase commitment, with or without the future settlement price and freely tradable or otherwise (see table 3.4).</p> <p>Forward transactions - Forward contracts for definitive purchase and sale at a fixed price:</p> <ul style="list-style-type: none"> a) with securities already issued and outstanding. The settlement date must be earlier than the maturity date of the securities; b) for securities of a public offering already announced but not yet settled ("forward auction").
Brazilian Central Bank operations	<p>Informal auctions - Definitive or repo operations conducted by the Brazilian Central Bank with the securities in its portfolio and restricted to open market dealers. There is no set timeline; operations are announced a day before they are held, through a Central Bank communication. The objective of these operations is to fine-tune liquidity and help in pricing on a daily basis.</p> <p>Central Bank Loans - Two back-to-back overnight repo operations: in the first, the Central Bank sells to a dealer the security it wants, based on a repurchase commitment. Simultaneously, another public security is purchased from the same institution, also with the resale commitment. The objective is to offer securities in the Central Bank's portfolio to institutions that take strategic positions in the spot market, which are guaranteed by other securities of the National Treasury.</p> <p>Rediscount - An intraday repo operation between the Central Bank and the institution holding the Banking Reserve account (the settlement account with the Central Bank). The objective is to guarantee temporary liquidity for settlement of operations in the payments system.</p>
Trading	<ul style="list-style-type: none"> - In the over-the-counter market, with registration and settlement done at the Special System for Settlement and Custody (SELIC) and liquidation in the Derivatives Chamber of the Brazilian Mercantile and Futures Exchange (BM&FBovespa). - In the electronic trading system: CetipNet (registration and settlement in the SELIC) or Sisbex (registration and settlement in the Derivatives Chamber of the BM&FBovespa).
SELIC	<ul style="list-style-type: none"> - A central depository for domestic federal public securities debt. - Real time gross settlement (RTGS) of operations with public federal securities, including those relating to auctions, Central Bank loans and rediscounts. - It has two complementary modules: Ofpub, to process public offerings, and Leinf, for informal auctions. - Securities held by non-residents are registered in the specific sub-account, in accordance with the Brazilian Central Bank's norms that define the custodial accounts of customers (Circular-Letter No. 3,278/07).
<p>Notes: 1. English version: http://www.tesouro.fazenda.gov.br/english/index.asp. 2. English version: http://www.bcb.gov.br/?english.</p>	

Table 2.2.2

Federal public securities - by type¹					
Type	Indexing Factor	Interest % p.a.²	Terms³	Maturity Rule³	Number of Days
LFT	Basic Reference Rate (Taxa Selic)	None	3,5 years	Third month of each quarter	Business days of the security/252
LTN	Fixed	None	6 months 12 months 24 months	First day of January, April, July and October	Business days of the security/252
NTN-F	Fixed	10% Half-yearly, with adjustment of the term in the first flowing period, when applicable	3 years 5 years 10 years	First day of January, except when the term is shorter (month of July)	Business days of the security/252
NTN-B	Extended Consumer Price Index	6% Half-yearly, with adjustment of the term in the first flowing period, when applicable	3 years 5 years 10 years 20 years 30 years 40 years	Securities maturing in odd years ⁴ : payment of principal in May and interest in May and November. Securities maturing in even years: payment of principal in August and interest in February and August.	Business days of the security/252
NTN-C	General Market Price Index (IGP-M)	6% ⁵ Half-yearly, with adjustment of the term in the first flowing period, when applicable	Financing strategy for 2007 does not envisage its issue	--	Business days of the security/252
NTN-D	Exchange rate fluctuation	12% Half-yearly, with adjustment of the term in the first flowing period, when applicable	These securities have not been issued since 2003	--	30/360

Key: LFT - Zero Coupon Floating Rate Bill (Letras Financeiras do Tesouro), LTN - Zero Coupon Fixed Rate Bill (Letras do Tesouro Nacional), NTN - National Treasury Note (B, C, D and F series).

Notes: 1. Object of public offer. 2. Defined by the Minister of State for Finance. 3. Defined by the PAF- Plano Anual de Financiamento 2007 (Annual Financing Plan - 2007), and may be amended according to the strategy of the National Treasury. 4. NTN-B with 3-year term may have the principal mature in November (exception to the general rule). 5. Except for securities maturing in 2031, with interest at 12%.

2.3 - Securities Issued by Companies

Table 2.3.1

Debentures	
Definition	Securities representing medium and long term debt that guarantee their owners (debenture holders) the right of credit against the issuing company.
Issuers	Public or private company (Sociedade Anônima - SA).
Debenture Deed	The document that describes the conditions under which the debenture will be issued.
Types of Issue	<ul style="list-style-type: none"> - Public: targeted at the general public, by a company listed with the Brazilian Securities and Exchange Commission (CVM); - Private: aimed at a restricted group of investors. The company does not have to be listed with the CVM.
Term	It must be defined in the deed, but the company may issue debentures without maturity (perpetual debentures).
Form	<ul style="list-style-type: none"> - Nominative: registration and control of transfers are made by the issuing company in the Register of Nominative Debentures; - Book-entry: custody and book keeping services are provided by the financial institution authorized by the CVM.
Types (in terms of guarantees)	<ul style="list-style-type: none"> - With real guarantee: guaranteed by the assets of the issuing company or of third parties (mortgage, pledge or antichresis - possession and enjoyment of mortgaged property by mortgagee in lieu of interest payments); - With floating guarantee: ensures general rights over the assets of the issuer, but does not hinder the sale of assets; - unsecured or non-preferential: does not offer any rights against the assets of the company; - Subordinate: offers preference only over shareholder dues.
Remuneration	<p>I - interest (fixed or variable rates)</p> <ul style="list-style-type: none"> a) fixed rate (without term); b) the following rates, increased or decreased by a fixed percentage: <ul style="list-style-type: none"> - Reference Rate (TR) or Long-term Interest Rate (TJLP), with a minimum period of 1 month for maturity or repricing; - Basic Financial Rate (TBF), with a minimum period of 2 months for maturity or repricing; - Varying rate (without term). c) based on the coefficients of monetary adjustments on government bonds, foreign exchange variation or the price index (1 year), increased or decreased by a fixed percentage. <p>II - reimbursement premium</p> <p>Based on the variation in the revenues or profits of the issuing company.</p> <p>III - share of company's profits</p>
Other conditions	<ul style="list-style-type: none"> - Convertibility: convertible debentures may be transformed into shares of the issuing company as defined in the deed; - Exchangeability: the debenture deed may contain clauses that establish the exchange of debentures for other assets or shares issued by third parties; - Repricing: the debenture deed may envisage this mechanism, allowing for the debenture's conditions to be adapted to those of the market.
Trustee	Legal representative of the common interests of debenture holders, protecting their rights vis-à-vis the issuer. Compulsory in public issues.
Information for investors	In public issues, the issue prospectus must compulsorily be prepared. This document consolidates all the relevant information about the issuer and the general conditions of issue.
Trading	<p>Generally, on the over-the-counter market, by telephone or through the electronic system (CetipNET), with registration and settlement done at the SND (the National Debentures Module; Cetip - Clearing House for the Custody and Settlement of Securities).</p> <p>They can also be traded on the stock exchange (BovespaFix), with registration and settlement done at the Brazilian Clearing and Depository Corporation (CBLC).</p>

SND (National Debentures Module)	The main system of custody, registration and financial settlement of operations related to debentures in Brazil,. See the site www.debentures.com.br .
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Table 2.3.2

Bank deposit certificates	
Definition	A nominal promise of payment, of the original deposited amount plus an agreed remuneration.
Types of deposits	<ul style="list-style-type: none"> - CDB – Bank Deposit Certificate, must be nominative and endorsable, and - RDB - Bank Deposit Receipt, nominative and not negotiable.
Issuers	<ul style="list-style-type: none"> - Multiple Banks (with commercial portfolio, of investment and /or development); - Commercial Banks; - Investment Banks; - development Banks; and - Savings institutions.
Remuneration	<ul style="list-style-type: none"> - Rates and terms: <ul style="list-style-type: none"> a) Fixed (without specified term); b) Floating (without specified term); c) TR and TJLP, minimum 1-month term for maturity or refinancing; d) TBF, minimum 2-month term for maturity or refinancing; e) Price Indexes, minimum maturity: 1 year. - Allowed more than one remuneration basis, if prevails the one offering better remuneration to the depositor. - It is allowed to do periodical income payment.
Bans	<ul style="list-style-type: none"> - CDB/RDB issue for financial institutions, including credit cooperatives. - It is allowed the issue of CDB/RDB for securities dealerships, securities brokers and independent agents¹.
Anticipated Redemption	<ul style="list-style-type: none"> - For RDB, the issuing institution must give agreement, and it is not permitted to bail any remuneration since the contract date, but is allowed to discount from principal and refund any installments eventually paid to that securities. - For CDB, maturity has to be respected, according to the securities remuneration.
Registration/ Trading	Must be registered at CETIP or other custody and settlement system authorized by the CB, up to three workable days after having booked the operation.
Exceptions	<ul style="list-style-type: none"> - Credit, financing and investment institutions and credit cooperatives may do fund raising through RDB issues, only from their associates. - Micro-entrepreneur Cooperatives² may apply funds in CDB and RDB.

Notes: 1. Individual or legal entity of one profession, with purpose of securities distribution and brokerage, investment funds and derivatives quotas, always under the responsibility and as representative of distribution securities institutions. 2. They award financing and offer guarantees to individuals, to make viable professional, commercial or small industrial undertakings, and also to legal entities classified as small business.

Table 2.3.3

Other fixed income securities			
Types	Basic Definition	Terms of Remuneration	Registration/ Trading
Fundraising by Financial Institutions and Others Authorized by the Brazilian Central Bank (BC)			
LC - Bill of Exchange	Linked to the financing of goods and services for individuals or legal entities and for working capital of legal entities. Acceptors: credit, financing and investment companies, and multiple service banks with credit, financing and investment portfolio.	Fixed rate, floating (DI, SELIC, Anbid) TR, TJLP, TBF, price index.	CETIP
LH - Mortgage Note	Can only be issued by institutions that grant loans using resources from the SFH, it is guaranteed by mortgage credits as collateral, and may rely on additional fidejussory guarantee from the financial institution.	TR, IGP-DI, IGP-M, INPC	CETIP
Certificates and Notes representing Credit Operations			
CCB - Banking Credit Note	Promise to pay in cash, arising from a credit operation. Issued by a company or an individual, with a bank as a counterpart.	Fixed/ floating rate (DI, SELIC, Anbid rate) TR, TJLP, TBF, price index and exchange variation.	CETIP BM&FBovespa
CCCB - Banking Credit Note Certificate	Security representing the CCB, may represent notes of different values, periods and terms of remuneration. Issued by the depository institution for the banking credit notes.	There is no specific remuneration.	CETIP
Commercial Credit Notes	These represent loans given by financial institutions for business activity or provision of services. Issued by individuals or legal entities dedicated to industrial activity.	Fixed rate, floating (DI, SELIC, Anbid) TR, TJLP, TBF, price index.	CETIP
Certificates and Notes representing Real Estate Credit Operations			
CCI - Real Estate Credit Certificate	Issued by the real estate creditor and may be whole, when it represents the entire loan amount, or a part, if it represents a portion of it, in which case the sum of the CCI parts cannot exceed the total loan amount they represent.	Minimum period of 36 months. A clause may be stipulated for monthly readjustments based on industry or general price indexes or by the basic savings yield index.	CETIP
CRI - Real Estate Receivables Certificate	Issued by companies securitizing real estate credits and publicly-held companies, pegged to real estate receivables, which constitute a promise of payment in cash.	Fixed rate, floating (DI, SELIC, Anbid) TR, TJLP, price index.	CETIP Bovespa Fix
LCI - Real Estate Credit Bill	Pegged to real estate loans guaranteed by mortgage or by the property's deed of trust. Issued by a commercial bank, multiple service bank with a real estate lending portfolio, CEF - Caixa Econômica Federal (the Federal Savings Bank), real estate credit companies, APE – Associações de Poupança e Empréstimo (Savings and Loan Associations) and mortgage companies.	Fixed rate, floating (DI, SELIC, Anbid) TR, TJLP, TBF, price index.	CETIP
Notes, Certificates and Bills representing Agribusiness Operations			
CPR - Rural Product Note	Order instrument with physical (delivery of products) or financial settlement. Rural producers and their associations, including cooperatives may issue CPRs.	Physical CPR – quantity of products. Financial CPR – fixed price or future price, based on the BM&F index or Esalq.	CETIP BM&FBovespa

LCA - Agricultural Credit Bill	Título de crédito emitido por instituição financeira pública ou privada, lastreada em direitos creditórios do agronegócio.	Credit instrument issued by public or private financial institution, pegged to agricultural credit receivables.	CETIP BM&FBovespa
CDCA - Certificate of Agribusiness Credit Rights	Issued by cooperatives of rural producers and other companies with agribusiness-related operations, pegged to agribusiness credit receivables.	Fixed or floating interest rates. Capitalization is allowed.	CETIP BM&FBovespa
CRA - Certificate of Agribusiness Liabilities	Issued by companies securitizing agribusiness credit receivables.	Interest rates are included in the discount value of the security in secondary market trades.	CETIP BM&FBovespa
CDA/WA - Certificate of Agricultural Deposit Agricultural Warrant	Unified credit instruments, issued simultaneously by warehouses through a bailment contract and extrajudicial execution. CDA represents promise of delivery of products and WA gives the right of pledge on the referred products.	Interest rate incorporated on the security discount value at secondary market operations.	CETIP BM&FBovespa
Others			
CD - Debenture Note	A bank-issued security pegged to debentures, with own guarantee, which gives its holder credit rights against the issuer.	Fixed/ floating (DI, SELIC, Anbid rate) TR, TJLP, TBF, price index and exchange variation.	CETIP
CTEE - Forward Certificate of Electrical Energy	Security issued by a publicly-held electric energy company for public offering. Funds are meant exclusively for investments in specific projects, for works considered by the National Water and Electric Energy Department as being delayed.	May have guarantees, may be divided into series, may envisage monetary restatement and premium, provided it is laid out in the issue document.	CETIP
CIA - Certificate of Audiovisual Investment	Certificate that characterizes quotas representing selling rights for works and specific projects relating to independent cinematographic audiovisual production in Brazil. Issued by the company dedicated to independent production of audiovisual work in Brazil and with domestic capital, which exhibits, distributes and technical infrastructure projects specific to the cinematographic audiovisual industry.	Share in selling rights, as laid down in the certificate.	CETIP BM&FBovespa
Export Credit Bills	- CCE and NCE (Cédulas e Notas de Crédito à Exportação - Export Credit Bills and Notes): debt instruments linked to exports. - Export Note: credit right in foreign currency, generated in sales contract of merchandise and of services abroad. Issued by exporting companies.	Exchange variation in the operation period, added to or deducted from the interest rates contracted.	CETIP BM&FBovespa
Commercial Paper	Issued by publicly-held corporations, giving their holders credit rights against the issuer.	Fixed and floating rate (DI, SELIC, Anbid) TR, TJLP.	CETIP Bovespa Fix
Remark: More information may be obtained from the websites of Cetip and BM&FBovespa – see the addresses in the attached Glossary and the websites for queries.			

2.4 - Repo Operations

Table 2.4

Repo operations	
Type of Operations	<ul style="list-style-type: none"> - Sale with promise to buyback or buy with promise of resale: <ul style="list-style-type: none"> • Inter-day, overnight or maturity greater than 1 day; • with or without freely tradable securities; • Matched (buyback to resale, allowing securities lending of bonds by the Central Bank). - Forward: <ul style="list-style-type: none"> • buy or sale operations; • overdraft or not; • Matched to cash buyback or resale.
Accepted Securities	<ul style="list-style-type: none"> - Securities issued by the National Treasury or the Brazilian Central Bank; - National Treasury securitized credits; - TDA – Agricultural Debt Securities, issued by the Incra (Brazilian National Institute of Colonization. and Agrarian Reform); - State and municipal securities; - CDB – Bank Deposit Certificates; - CCB – Banking Credit Notes, and CCCB - Banking Credit Notes Certificates; - LC – Bill of Exchange, and LH – Mortgage Bills; - LCI – Real Estate Credit Bills, and CCI – Real Estate Credit Certificates; - Debentures and Debentures Notes; - Commercial Papers; - CRI – Real Estate Receivables Certificate; - Rural Product Notes, with financial settlement; - CDCA – Certificate of Agribusiness Credit Rights, LCA – Agribusiness Credit Bill, CRA - Certificates of Agribusiness Liabilities; - CCE and NCE – Export Notes; - Other securities that may be authorized by the Brazilian Central Bank.
Main Features	<ul style="list-style-type: none"> - Maturity: must always be equal or inferior to redemption maturity of securities used in operations. - Income: defined (fixed) rate of return or with established remuneration parameter (floating), it is banned to use currency realignment clause (except on securities based-currency adjustment forward operations). - Counterpart: one of the parts must be a certified (by the CB) financial institution¹. - Restrictions: <ul style="list-style-type: none"> • Clients² may only sell and buyback securities that are not object of resale. • Without freely tradable agreement, securities only may be sold through news repo operations without freely tradable agreement and with buyback date equal or previous to the repo resale. • Non-resident investors buying public federal bonds with resale commitment do not have the right to income revenue exemption (see chapter IV – Taxation). - Trading: over the counter market (with SELIC or Sisbex Registration) or in Sisbex or CETIPNet trading electronic systems. - Registration and settlement: at SELIC (over the counter market and CETIPNet) or at BM&F Assets Clearing (Sisbex-Negotiation or Sisbex- Registration).
Freely Tradable Securities	<ul style="list-style-type: none"> - Definitive sale, done by the buyer, of the securities object of resale. - Must have previous agreement between counterparts. - Must be National Treasury bonds or be settled in a central counterpart clearing house (BM&F assets clearing), in the case of other securities. - If these requirements are fulfilled, then clients** may do trades. - It is necessary to have a clause to do short selling on that market.

Forward & Overdraft Operations	<ul style="list-style-type: none"> - Only between financial institutions. - Only with National Treasury bonds, or in central counterpart clearing house (BM&F assets clearing). - Of National Treasury securities to go into auction, through previously announced offers and placing a minimum of 51% of the offered lot and with same settlement date.
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Notes: 1. Financial Institutions or institutions authorized by the CB, including brokerage houses and securities dealerships. 2. Non-financial Individuals or legal entities, including investment funds.

2.5 - Investment Funds

Table 2.5.1

General Rules (Regulated by Instruction No. 409 of the Brazilian Securities and Exchange Commission (CVM) and later amendments)			
Classes	Composition of Portfolio		Remarks ³
	Description	Limit ² (of PL)	
External Debt¹	Securities representing the external debt of the Federal government.	Min. 80%	Derivatives abroad (10% of PL) or in Brazil (10% of PL), exclusively for hedging.
	Other credit securities negotiated in the international market.	Max. 20%	
Referenced¹	Government bonds and fixed income bonds/securities with low credit risk	Min. 80%	Derivatives exclusively for the purpose of hedging the spot positions up to their limit.
	Financial assets that directly or indirectly accompany the variation in the benchmark	Min. 95%	
Stock	Stock, subscription warrants/receipts and share certificates, quotas of equity funds and stock indexes, and BDRs (Brazilian Depositary Receipts)	Min. 67%	Their main risk factor must be the variation in the prices of stock traded in the spot market on stock exchanges or over-the-counter market.
	Investment in any other kind of assets	Max. 33%	
Multimarket¹	Financial assets abroad	Max. 20%	Must have investment policies that involve various risk factors, without the commitment to concentrate on any particular factor.
	Other investments	Min. 80%	
Fixed Income¹	Assets related directly, or synthesized through derivatives, to the risk factor that gives the class its name.	Min. 80%	The main risk factor of their portfolio must be the variation in the domestic interest rates or price indexes, or both.
Foreign Exchange¹	Assets related directly, or synthesized through derivatives, to the risk factor that gives the class its name.	Min. 80%	The main risk factor of their portfolio must be the variation in the foreign currency rates, or the variation in the foreign exchange coupon.
Short Term	Government bonds or private securities (low credit risk), fixed or indexed to the SELIC rate or any other interest rate, or securities linked to price indexes, with a maximum period of 375 days, and the average portfolio term of less than 60 days.	100%	Derivatives are allowed only for hedging the portfolio and for repo operations pegged to federal government bonds.
in Quotas of Investment Funds	Quotas of investment funds of the same class	Min. 95%	Funds in quotas classified as Multi-market may invest in quotas of funds belonging to different classes. Investments are prohibited in quotas of funds not envisaged in Instruction No. 409, except for "exclusive" investment funds and Multi-market investment funds created exclusively for qualified investors.
	Demand deposits and/or government bonds, fixed income securities issued by the financial institutions and repo operations.	Max. 5%	

Notes: 1. May include in their title the expression “Long term” for the purpose of obtaining differentiated tax treatment as established in regulation (See Chapter 4 - Taxation). 2. Besides the composition limits applicable to the Net Worth (PL – Patrimônio Líquido), the limits per issuer and per financial asset type established by regulation must also be observed. 3. Registration of the investment fund quotas may be made in the Cetip – Clearing House for the Custody and Settlement of Securities (Câmara de Custódia e Liquidação).

Notes: 1. An investment fund may be created exclusively for qualified investors. Qualified investors are financial institutions, insurance companies and capitalization companies, pension funds, individuals and legal entities that have investment amounts greater than R\$ 300,000.00 and attest this in writing. 2. An investment fund that requires minimum investment, by investor, of R\$ 1,000,000.00, don't need to observe the limits per issuer, per financial asset type and for the acquisition of financial assets abroad established by regulation.

Table 2.5.2

Other Investment Funds			
Classes	Composition of Portfolio		Remarks²
	Description	Limit¹ (of PL)	
FII (Real Estate Inv. Fund)	Any real estate property rights. Any security registered or authorized by CVM issued by companies which main activities are related do FII. Quotas of FIP or of FIDC which exclusively invests in real estate Quotas of FII Cepacs, CRI, LH and LCI	100%	FII that invests more than 50% in securities might observe the limits per issuer and per financial asset type established by CVM Instruction nº 409,
FIDC	Receivables	Min. 50%	Limit of 20% of the PL for acquisition of credit receivables and other assets from the same debtor. Investments can be only in qualified investor funds, with the minimum subscription value being \$ 25,000.
	TPF, State and Municipal, CDB, RDB and other securities, bonds and fixed income assets. Repo operations and in derivatives markets are optional, provided the objective is to hedge the spot positions up to their limits.	Max. 50%	
FIEE	Stock, debentures convertible into shares and/or subscription warrants issued by emerging companies (companies with a annual net profit of R\$ 150 million or less).	Min. 75%	The daily positions in securities of emerging companies may reach 50%, provided that the average is 75% every 180 days.
	Fixed income securities, stock, debentures convertible into shares and/or subscription warrants issued by non-emerging companies and shares of publicly-held companies.	Max. 25%	
FIP	Stock, debentures, subscription warrants, or other securities and shares convertible or exchangeable into shares of publicly-held or private companies, participating in the decision making process of the investee company. Derivatives exclusively for hedging assets.	100%	Investments can only be made by qualified investors, with the minimum subscription value being R\$ 100,000.

Notes: 1. The limits established in the regulation relating to portfolio diversification too must also be observed. 2. Quotas of investment funds may be registered at the Cetip. Alternatively, quotas of the FII and FIDC may be registered with the CBLC.

Notes: FII – Real Estate Investment Fund (Fundo de Investimento Imobiliário) / FIDC – Credit Receivables Investment Funds (Fundo de Investimento em Direitos Creditórios) / FIEE – Emerging Companies Investment Funds (Fundo de Investimento em Empresas Emergentes) / Participation Investment Fund (Fundo de Investimento em Participações).

6 - Stock and Derivatives Markets

Table 2.6

Stock and Derivatives Markets			
Markets	Definition	Main Contracts ¹	Registration/Trading
Spot	Assets, bonds and securities trades with cash settlement.	- Stock - Commodities (gold, agribusiness).	- BM&FBovespa - BM&FBovespa
Forward²	Assets, bonds and securities trades settled in a certain term, usually 30, 60 or 90 days after the negotiation.	- US Dollar - Currencies - DI Index - Gold	- BM&FBovespa - CETIP - CETIP - BM&FBovespa
Futures²	Buy and/or sell Commitment for settlement (delivery and/or financial) in future dates, with daily-value contract adjust.	- Stock - One-day DI - Ibovespa - US Dollar / EURO - Gold - IPCA / IGP-M	- BM&FBovespa
Options²	Entitles the holder to have the right of buying or selling an object-asset at a certain price. For the option writer, it is opposed a future obligation against the holder's right, in case that right be performed by the holder.	- Foreign exchange rates Flexible options - Stocks and indexes flexible options - One-day DI - Ibovespa - Bovespa Index	- CETIP - CETIP - BM&FBovespa - BM&FBovespa
Swaps	Contract where both counterparties exchange a floating or prefixed rate for another one with the objective of hedge, match active and passive positions and equalize prices.	- Dollar interest rate - Credit Swap - Cash Flow Swap - Reset Swap ³	- BM&FBovespa - CETIP/ BM&FBovespa - CETIP - CETIP
Indexes	Contracts based on a performance indicator of a theoretical portfolio. It measures the return on the Bovespa's most negotiated stocks.	- Bovespa Index - Ibovespa - Brazil 50 Index - IBRX 50 - Brazil Index - IBRX	- BM&FBovespa

Notes: 1. Contracts are listed at the following sites: Bovespa (www.bovespa.com.br), BM&F (www.bmf.com.br) and Cetip (www.cetip.com.br) – see Annex Glossary and Sites for English versions of respective sites. 2. Resolution 2687/00 allows investors to do business of term, futures and options contracts referred to agribusiness products. In these cases, the investor does not have to bring into Brazil his financial assets, and he may settle his business in accounts open by BM&F specifically for that purpose, being BM&F responsible for foreign exchange contracts and tax withholding of these investment. 3. Reset swaps may be periodically market-valued, considering market conditions.

2.7 - Specific Type

Table 2.7.1

DR - Depository Receipts¹	
Definition	Certificates representing stock or other securities that represent rights to stock, issued abroad by the depository institution, and pegged to securities held in custody in Brazil.
Parties in the Issue Process	<p>Sponsor: the publicly-held company in Brazil that issues stock or securities under the Depository Receipts program and has signed a specific contract with the depository institution;</p> <p>Custodian: the institution in Brazil authorized by the Brazilian Securities and Exchange Commission (CVM) to provide custodial services for the specific purpose of DRs. It is responsible for providing information about the portfolio to the Brazilian Central Bank and CVM.</p> <p>Depository Institution (Issuing Bank): the institution that, based on the securities held in custody in Brazil, issues the corresponding DRs abroad.</p>
RDE (Electronic Declaratory Register)	DRs must be registered with the Brazilian Central Bank (RDE), under the responsibility of the custodian.
Redemption/ Cancellation/ Transfer	Stock corresponding to the DRs being redeemed may be sold in the Brazilian market and consequently, funds may be remitted abroad or the stock or securities may be withdrawn from the program's depository account, as a result of which the holder of these assumes the status of investor under the terms and conditions of other types of foreign investment.
<p><small>1. DR – Depository Receipts are a specific investment mechanism (not regulated by Res. 2.689), also mentioned in Annex V to Res. 1.289/87.</small></p>	

Table 2.7.2

Agribusiness Derivatives¹	
Definition	Operations involving forward, futures and options contracts referenced to agribusiness products in the BM&FBovespa.
Requirements	The requirements relating to registration data, collateral margins and daily adjustments are the same as applicable to residents in Brazil. (See www.bmf.com.br).
RDE	These must be registered with the Brazilian Central Bank (RDE), under the responsibility of the BM&FBovespa.
Custody	The BM&FBovespa is authorized to open a depository account abroad in order to receive the securities in compliance with the collateral margin requirements, and a current account for the financial transactions relating to the operations.
Acquisition of Foreign Exchange	The BM&FBovespa is responsible for acquiring the foreign exchange relating to the operations on behalf of its members.
Prohibitions	Execution of operational strategies that may result in predetermined yield.
<p><small>1. Operations involving forward, futures and options contracts referenced to agribusiness products in the BM&FBovespa, have a specific regulation (Res. 2.687/00).</small></p>	

TAXATION

• IR - Income Tax

Fiscal treatment of non-resident investors on Brazilian financial and market capital applications basically differs according to the origin of funds. Investors from countries that don't have a "favored taxation"³ will have the right to hold Brazilian tax benefits, provided they fulfill foreseen conditions of Monetary National Council norms – already mentioned in previous chapters.

Therefore, income tax incidence in these cases follows specific rules. There is no income tax incidence – regarding securities applications -, on capital gains⁴. Dividends and cash bonus as well, are also exempt. Stock investment funds applications, in swap trading and those performed on futures markets, out of the Stock Exchange, are levied to a 10% tax rate. Other income, including fixed-income revenue, are levied to a 15% tax rate, except those originated from public bonds that became zero rate, as of 16/2/06⁵ on income cashed by non-resident investors.

As previously mentioned, the Association proposed and supported tax exemption on non-resident public bonds purchases, with the purpose of increasing investors participation on public debt market, especially in the fixed-rated and long term bonds segment. They were also classified as zero rates, non-resident exclusive investment funds quotas with a minimum of 98% in securities, and revenue from quotas of participation investment funds applications, and in emerging companies'⁶ investment funds.

In the case of investments from places where income is levied at a rate up to 20% ("tax havens"), above mentioned tax benefits do not apply. These investments are subject to the same rules of investors residing or domiciled in the country. Regarding Stock Exchange gains, they are levied on a 15% income tax rate, while fixed income and swaps operations are levied with decreasing rates, between 22.5% and 15%, depending on the maturities.

• IOF – Tax on Credit, Exchange and Insurance Operations, or Stock or Security Operations.

Like for resident investments, there is an IOF levy on redemptions, cessions or renegotiations traded in periods of up to 30 days, for fixed income market, investment funds quotas redemptions and investment clubs traded operations⁷ performed by foreign investors. Tax rate is 1% daily, limited and decreasing in relation to the period (from 1 to 30 days), to the operations revenue (from 96% to 0%).⁸

As from October 20th 2009, IOF tax on the incoming of foreign resources to be invested on the Brazilian financial market was elevated to 2%. When these resources leave the country, they are subject to a zero aliquot. There is also a very specific case, which is the foreign investment in quotas of real estate funds and equity funds. These types of investment are subject to a maximum aliquot of 1.5% per day, with the following limitations: 10%

³. "Favored transaction" places are not-paying income taxes countries or locations, or where if paying it is up to a 20% rate. They are also known as "Tax havens".

⁴. Capital gains are positive results coming from Stock Exchange trades, or BM&F, or similar, excepting box operations, and gold and financial assets operations, traded out from the Stock Exchange.

⁵. Zero rates are not due for securities purchased with buyer's resale commitment.

⁶. These funds must have a minimum of 67% of stocks from joint stock companies, debentures convertible into stock and subscription bonus.

⁷. Note that Law n° 8.929/94, article 19, §2°, exempts from IOF, the operations with CPR – Rural Product Notes on stock exchange markets and over-the-counter markets.

⁸. This IOF is also known as short-term IOF.

while the fund is not properly constituted and 5%, up to a year since the registration of the quotas at the CVM. After that period, there is no IOF taxation.

Finally, it is worth to mention that according to what is established by law, the previously designated foreign investor legal representative is responsible for the fulfillment of fiscal obligations of the operations he will perform on behalf and order of his client. That responsibility only applies to net earnings tax due. In agribusiness derivatives operations, mentioned on previous chapter, BM&FBovespa is responsible for tax withholding and payment. On other cases, responsibility belongs to the legal entity which pays revenues, or to the fund or investment club administrator.

And now we summarize in compact tables the IR and IOF short-term tax rates for Brazilian financial and capital markets foreign investors' investments.

Table 3.1			
Taxation of non-residents			
a - General Rules¹			
Investments	Rates		
Yield	Income Tax		IOF⁴
- Government Bonds ⁷ - Exclusive investment fund, 98% of whose portfolio is made up of Government Bonds - FIP, FIC-FIP and FIEE ⁸	Exempt		According to Investment Term
Private Bonds and Fixed Income Funds	15% ³		
Swaps	10% ³		
Equity Investment Fund	10% ³		None
Capital Gains	In stock exchanges	Outside stock exchanges	None
Stock or Stock Indexes	Exempt	15%	
- Futures referenced to agribusiness products - Other Derivatives	Exempt	10%	
b - Rules applicable to other investors, including those from regions with favored taxation²			
Investments	Rates		
Yield	Income Tax		IOF⁴
- Government Bonds - Private Bonds - Fixed Income Funds - Long term ⁵ - Swaps	- up to 180 days: 22.5% ³ - 181 to 360 days: 20% ³ - 361 to 720 days: 17.5% ³ - more than 720 days: 15% ³		According to Investment Term
Fixed Income Funds - Short term ⁶	- up to 180 days: 22.5% ³ - more than 180 days: 20% ³		
Equity Investment Funds, FIP, FIC-FIP and FIEE	15% ³		Exempt



Capital Gains	In stock exchanges and over-the-counter market	
Stock or Stock Indexes	15%	None
- Futures referenced to agribusiness products - Other Derivatives	15%	
Day Trade	20%	

Note: FIP – Participation Investment Fund, FIC-FIP – Investment Funds in quotas of Participation Investment Funds, FIEE - Emerging Companies Investment Funds.

Notes: **1.** Rates for investors from regions where income is taxed and whose funds had been remitted in accordance with the norms of the National Monetary Council. **2.** Same rates as applicable to residents. **3.** IR - Income Tax withheld at source. **4.** IOF - Tax on Financial Operations is levied on redemption of investments up to 30 days, with decreasing rates. **5.** In May and November, IR at 15% is levied as advance IR due upon redemption. **6.** In May and November, IR at 20% is levied as advance IR due upon redemption. **7.** Federal public securities acquired with a resale commitment are not entitled to exemption from IR. **8.** This exemption does not apply to the investor who, solely or together with related persons, represents 40% or more of the total quotas or whose quotas give him the right to yields greater than 40% of the total yield and that possess in their portfolios debt instruments in excess of 5% of its net worth. It should be noted that government bonds and some debt instruments (stocks, debentures convertible in stock and subscription bonus) are not counted towards this limit.