

2011



FOREIGN INVESTOR HANDOUT

How to access the Brazilian Public Securities Market?



B R A S Í L I A

Domestic Debt Overview

National Treasury's Financing Structure

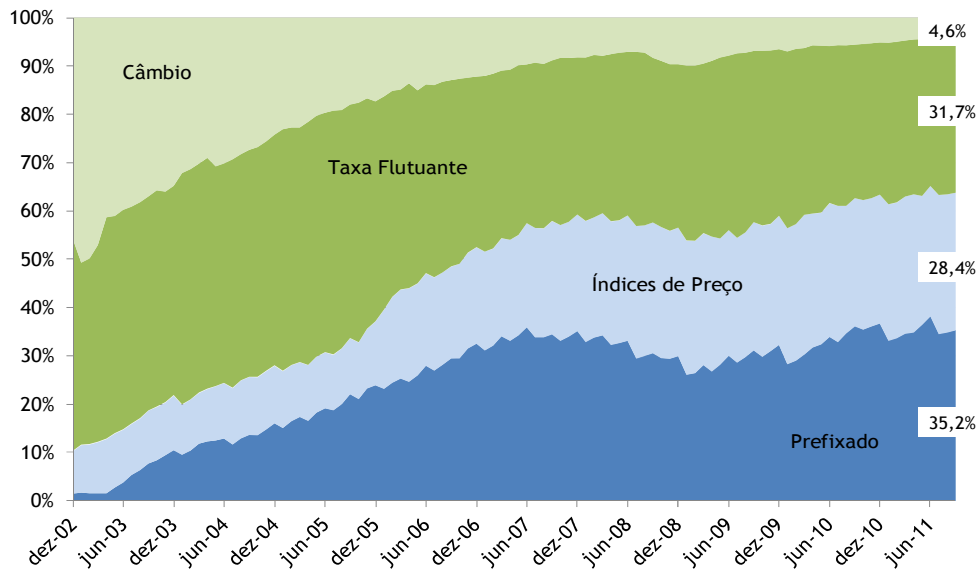
- DMO Guidelines
- Types of Securities Issued Regularly:
- Auctions Modalities
- Trading
- Asset Clearing Promotion

Registration Process and Accessing Local Market

- Choosing a Representative
- Registration with the CVM
- Investor Classification
- Types of Account
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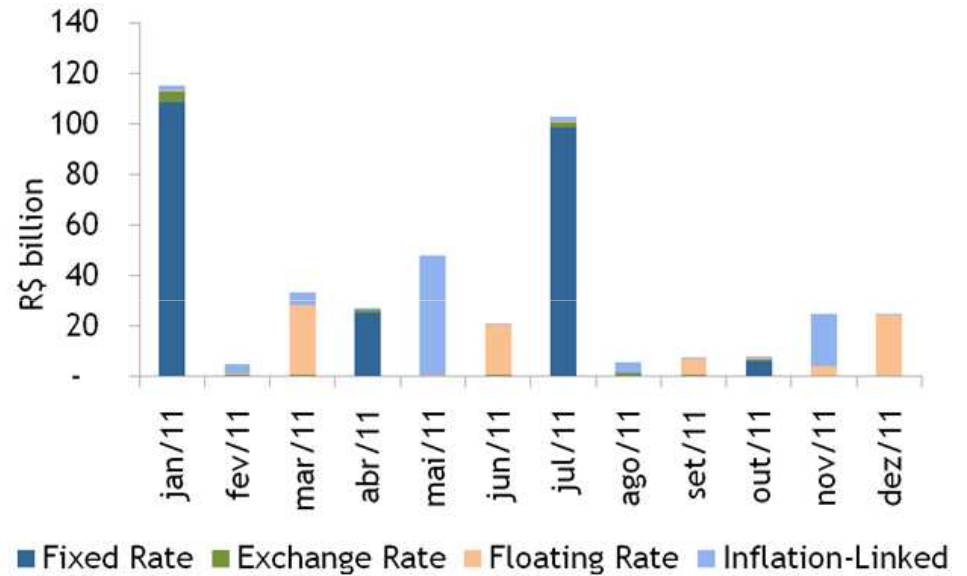
Profile - Historical Data - DFPD*



Source: National treasury

Note (*) DFPD - Domestic Federal Public Debt

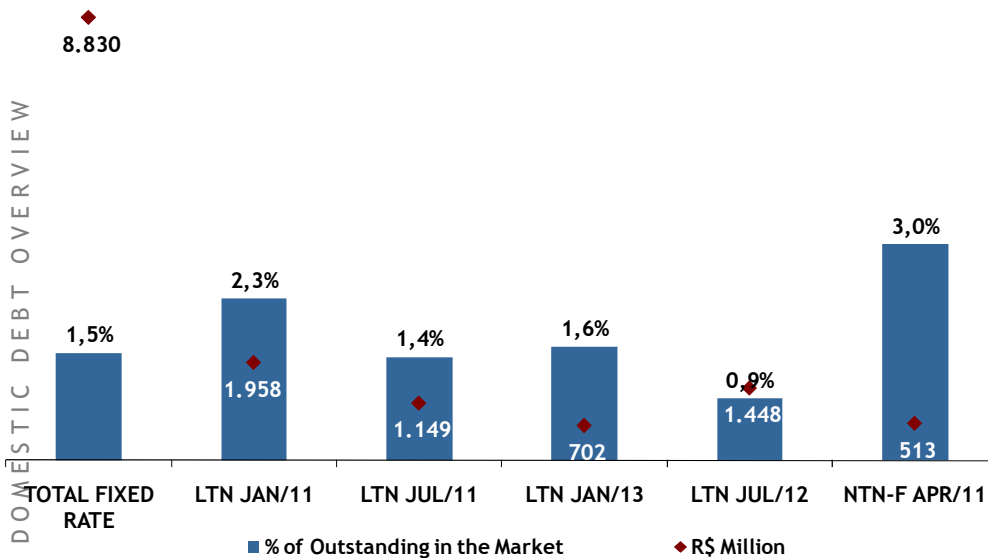
Maturity - Federal Public Debt



Source: National Treasury

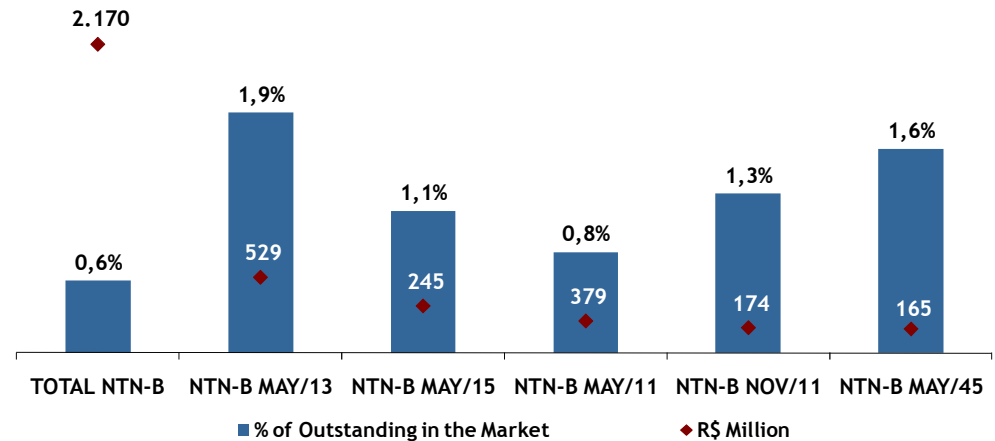
Notes: (1) Exchange Rate refers to External Debt; (2) Global BRL bonds are 1.97% of Fixed Rate bonds

Daily Turnover* - Fixed Rate Bonds



Source: National Treasury * as of Dec - 10

Daily Turnover* - Inflation linked



Source: National Treasury * as of Dec - 10

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National Treasury's Financing Structure

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- DMO Guidelines
- Issuances
- Types of Securities Issued Regularly
- Auctions Modalities

Registration Process and Accessing Local Market

- ❑ The main Federal Public Debt - FPD management objective is to minimize long-term financing costs, ensuring the maintenance of prudent risk levels, and contributing to the proper running of the market for the public debt.
- ❑ In order to achieve these goals, the following general guidelines for the DPF management have been established:
 - ❑ Lengthening of the FPD average maturity, mainly by increasing the average term of bonds issued in public offerings (auctions);
 - ❑ Reduction of the debt share due in 12 months;
 - ❑ Gradual replacement of floating-rate (Selic-linked) bonds, as well as of exchange-linked bonds, by fixed-rate and inflation-linked bonds; and
 - ❑ Support to the development of the term structure of interest rates for public bonds
 - ❑ Domestic Debt - DFPD
 - ❑ External Debt - EFPD
- ❑ For more details you can access the Annual Borrowing Plan at our website:
http://www.tesouro.fazenda.gov.br/english/public_debt/annual_borrowing_plan.asp

- ❑ The great majority of the domestic bonded debt issuances take place in a competitive manner, through auctions held by the National Treasury, through an electronic system. For each public auction, a National Treasury Regulation is announced, making the offerings public. The other types of issuances are: direct issuances used to meet specific requirements defined by law, and public offerings to individuals, through the “Tesouro Direto” * program.
- ❑ The main bonds offered in the domestic auctions are:
 - ❑ LTN - National Treasury Bills: bonds which yields are determined (fixed rate) upon purchase. Form of payment: upon maturity;
 - ❑ NTN-F - National Treasury Notes - F series: bonds with fixed rate yields, along with interest defined upon purchase. Form of payment: every six months (interest payment) and upon maturity (principal);
 - ❑ NTN-B - National Treasury Notes - B series: IPCA linked bonds which yields are linked to the variation of the Consumer Price Index - IPCA, along with the yield to maturity defined upon purchase. Form of payment: every six months (interest payment) and upon maturity (principal) and;
 - ❑ LFT - Financial Treasury Bills: linked to the overnight rate.(average rate of daily operations with public bonds registered in the SELIC system, or simply, the SELIC rate). Form of payment: upon maturity.
- ❑ The monthly auctions schedule can be found at http://www.tesouro.fazenda.gov.br/english/public_debt/auctions.asp
- ❑ The Public Bonds Pricing Methodology can be found at http://www.tesouro.fazenda.gov.br/english/public_debt/downloads/pricing_methodology.pdf

* :Brazilian Treasury Direct Program

- ❑ The traditional auctions normally take place on Thursdays. The NTN-B auctions normally take place every other Tuesday. Public bond exchange and purchase auctions are also held, and normally take place on Wednesday.
- ❑ Traditional Auctions
 - ❑ Most of DFPD - Domestic Federal Public Debt- issuances are conducted under competitive process, through auctions, with multiple prices (except the NTN-B and the LFT auctions, Dutch bid-pricing). These auctions are operated on a electronic system¹. Each participant (banks, brokers distributors and other institutions registered in the Selic) is allowed to submit up to 5 bids.
- ❑ Other Types of Auctions
 - ❑ Purchase auctions: Through this instrument, the National Treasury acquires securities transacted in the market. These auctions have two purposes:
 - ❑ To smooth maturities;
 - ❑ To provide liquidity to the secondary market;
 - ❑ Exchange Auctions: They have the same purposes of purchase auctions. However, the National Treasury offers new securities and receive, as counterpart, other securities transacted in the market, which are previously defined in each auction legal authorization (issue a decree).

Domestic Debt Overview

National Treasury's Financing Strategy

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Registration Process and Accessing Local Market - *Step by Step* 8

- ❑ Prior to starting its operations a non-resident investor must appoint one or more representatives in the Country: Custodian (securities custody in the SELIC system), a Broker (OTC, screen or clearing trading), Foreign Exchange Bank (managing inflows and outflows of foreign reserves) and Local representative (representing the investor at the Central Bank, CVM (Brazilian Securities and Exchange Commission) and IRS (Internal Revenue Service). **In general, a single institution provides all services in one package. CVM publishes a list of those:**

http://www.cvm.gov.br/port/Redirrss_top.asp?submain=/asp/cvmwww/InvNRes/tabecus.asp

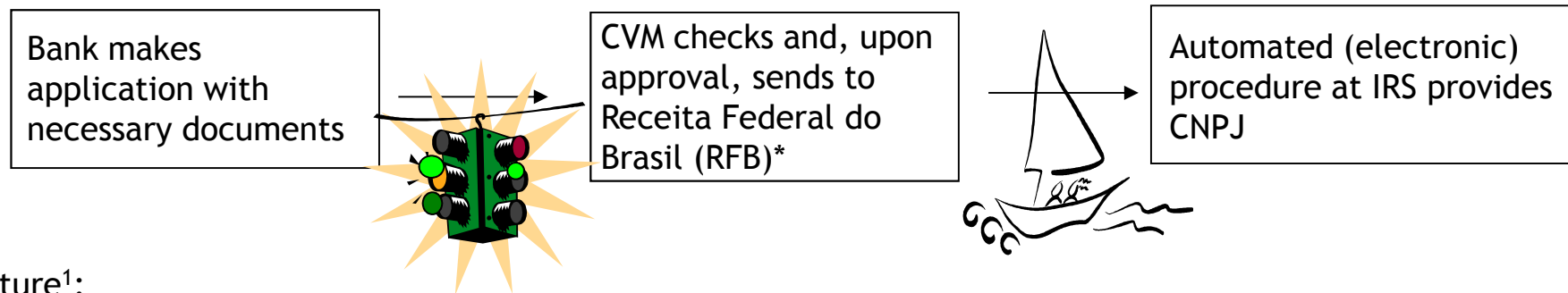
- ❑ When such representative is an individual or a non-financial institution the investor must also appoint a financial institution or institution authorized to operate by the Brazilian Central Bank that will be jointly and severally responsible for the performance of the representative's obligations. The representative does not necessarily perform the requirements of the tax legislation although in practice he may also perform such duties.

Representative's Responsibilities - Know your Customer

- ❑ You can find detailed information on ANNEX 1.1 or on BEST investor's guide at

http://www.bestbrazil.org.br/pages/publications/BrazilianCapital/Practical_Guide.pdf

- ❑ After filling out the identification form (see a model on ANNEX 1.2 or from [BEST investor’s guide](#)), the non-resident investor should, through its representative, obtain registration at CVM. The application is made electronically forwarding this document to the **CVM Gerência de Investidores Estrangeiros** at the e-mail address gie@cvm.gov.br or fax no. +55 (21) 3233-8370.
- ❑ CVM will respond to the registration within 24 hours from the application made by the representative, allowing the investor to operate in local market.



❑ Structure¹:

- ❑ Conta Ônibus- “Omnibus account”: (in the name of Global Custodian);
- ❑ Passageiros - “Passengers”: (individual investors).
- ❑ Both require CVM and CNPJ numbers. In general, the biggest “Global Custodians” already have a “Conta Ônibus” ready to receive individual investors.

¹ See annex for the advantages and disadvantages of each type of account.

* Brazilian Internal Revenue Service (IRS)

Tax Treatment³

□ Fixed Income:

- IOF¹: 6% tax on incoming foreign investment;
- Local representative is in charge of collecting taxes;
- Investors are exempted from Withholding taxes*
- FX settlement can either be performed at spot market (D+0) or at term.

1- Tax on financial operations. The tax is paid only when entering the country.

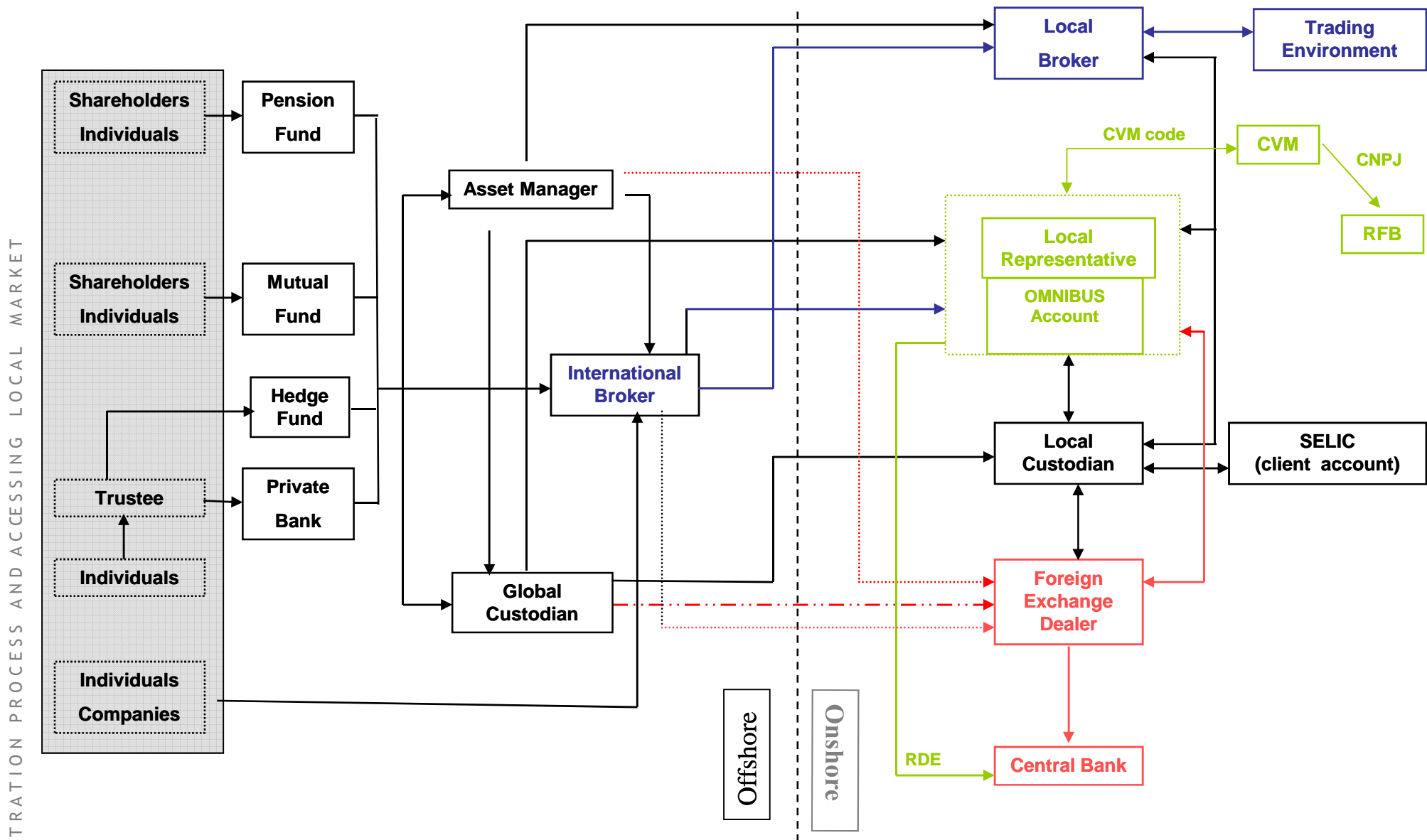
2- Tax on financial transactions

3- See Annex for details

* Note: Non-resident investors domiciled in tax havens are taxed at the same rates as local investors, that is, ranging from 22.5% to 15% according with the investment maturity.

Tax Treatment

	Withholding Tax (IR)	IOF
Public Securities	NO	YES
Equities	NO	NO



Source: BEST – Brazil Excellence in Securities Transactions and National Treasury

- ❑ There are wide channels where relevant data is disclosed, as pointed below;
- ❑ The costs of operating in the market mainly depend on the type of relationship between the investor and his local market representative.

Liquidity: ANBIMA¹ - public securities secondary market reference

❑ Pricing, historical data on rates and volumes per instrument:

- ❑ <http://www.andima.com.br/> and <http://www.andima.com.br/english/index.asp> for the English version
- ❑ To find out the Brazilian business days (and holydays) : www.andima.com.br / índice geral / feriados bancários (until 2075). There is an spreadsheet file available for download.

Liquidity: SELIC - Special System of Settlement and Custody and Central Bank

❑ Transactions of Federal Public Securities in the secondary market:

- ❑ <http://www.bcb.gov.br/?ENGLISH> and follow:
 - ❑ economy and finance / selic - Federal securities market / transactions (transactions of federal securities in the secondary market)
- ❑ For economic data, press releases, time series and others, one could follow:
 - ❑ economy and finance / time series / special series: <http://www.bcb.gov.br/?TIMESERIESEN> ;
 - ❑ inflation targeting / Copom - Monetary Policy Committee : <http://www.bcb.gov.br/?COMMITTEE> ;

1- ANDIMA has joined its activities with ANBID, both becoming to compose ANBIMA - Brazilian Financial and Capital Markets Association. However, until the merger process is fully completed, looking forward/aiming the convenience of its members, the websites of both associations will keep its respective contents.

Liquidity: BM&FBovespa¹ - DI (Interbank Deposit) Futures

- ❑ The DI futures contract works like a swap from floating rate (DI rate) into fixed rate. It is the most liquid interest rate instrument in the Brazilian Market and is listed below. There are historical and current contracts:
 - ❑ <http://www.bmfbovespa.com.br/en-us/intros/intro-daily-bulletin.aspx?ldioma=en-us>
 - ❑ Where one can find important data following:
 - ❑ Daily bulletin / quotes and volumes / market overview / electronic trading;
 - ❑ Daily bulletin / quotes and volumes / Sisbex (clearing).
- ❑ Other instruments as the DDI (FX coupon) and FRA on the DI x USD Spread are available and adjusted daily:
 - ❑ Daily bulletin / quotes and volumes / Settlement Prices.

CETIP² - DI historical data

- ❑ Time series on relevant data by asset :
 - ❑ <http://www.cetip.com.br/> and follow:
 - ❑ Statistics / Historical series / data by asset
 - ❑ One can find relevant time series for DI rates (spot).

Bloomberg - (BRAZIL GO) - and Reuters (Brazil)

- ❑ Gathers the main dealers (note that public securities auctions are not restricted to dealers).
- ❑ All kind of data on each security transacted in the market.

1- BM&FBOVESPA S.A. - Securities, Commodities and Futures Exchange was created in 2008 with the integration between the Brazilian Mercantile & Futures Exchange (BM&F) and the São Paulo Stock Exchange (BM&FBovespa).

2 -Custody and Settlement is one of the largest clearing and depository companies in Latin America. Today it is a limited liability corporation with its shares listed at BM&FBovespa. It was created jointly by financial institutions and the Central Bank of Brazil in March of 1986 to provide transactions in the Brazilian financial market with greater safety and agility.

The BM&F has been working with the aim of fostering electronic clearing through screen trading, using such systems as SISBEX. This task began in 2004 and took significant importance in 2005 when the BM&F made screens available in real time to the investors throughout the world citing the prices of these assets, using the services of such financial information agencies as Reuters and Bloomberg.

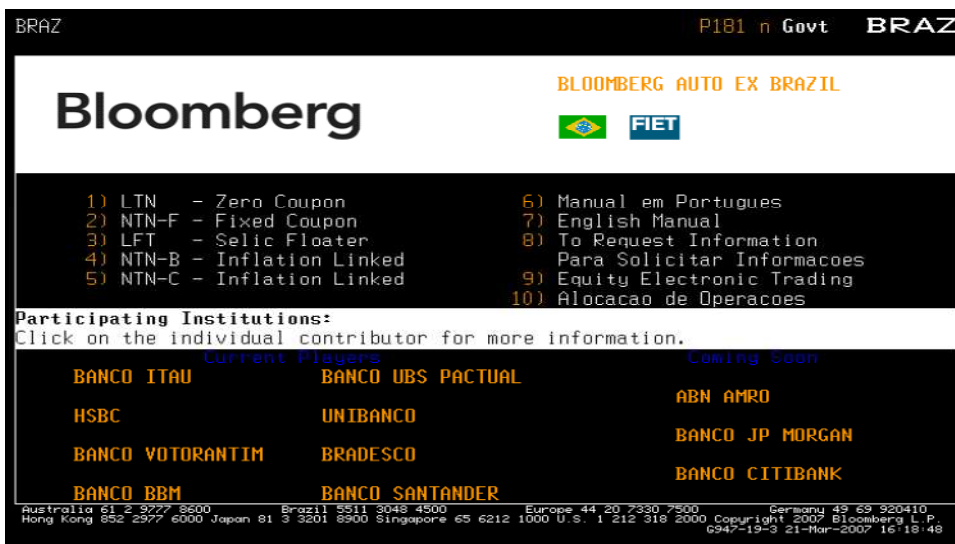
These measures are taken aiming at:

- Facilitate the participation of foreign investors in the Brazilian domestic debt through measures that will bring more transparency and liquidity to the market, thus expanding and diversifying the investors base;
- Stimulate the participation of institutional investors, such as Pension Funds, in the bonds negotiations in the secondary market;
- Stimulate the bonds negotiation by the dealers through the electronic platform.
- Timing: In Brazil, transactions are cleared in D+1.*

COSTS: they depend on each operation's type - check with local representative

REGISTRATION PROCESS AND ACCESSING LOCAL MARKET

Bloomberg and BM&F Sisbex Screen



Reuters and BM&F Sisbex Screen



Dealership System

- ❑ **New Dealers System (National Treasury and Central Bank)**
 - ❑ In the second half of 2010 there was the unification of the institutions classified as primary and specialist dealers into a single group.
 - ❑ The same institution participates more actively not only in primary placements of federal public bonds but also in trading operations on the secondary market
 - ❑ 12 institutions are included in the dealers system, of which 10 are banks and two are independent brokerage or distribution companies.
- ❑ **New System Goals**
 - ❑ To increase liquidity in the secondary market;
 - ❑ To increase competition in the public bond market;
 - ❑ To reduce public debt financial costs and to improve its profile; and
 - ❑ To increase data availability to the National Treasury and the Central Bank.

Federal Public Debt Monthly Report

- ❑ Publishes statistics and relevant data on Federal Public Debt - DPF. This new release includes data on issuances, redemptions, outstanding debt evolution, average maturity, maturity profile, average cost and others for both domestic and external debt from Brazilian National Treasury responsibility. Besides that, it brings data on the “Tesouro Direto” Program - a public securities retail sales program - and a periodic (4-months) Annual Borrowing Plan assessment. From 2011, this report will regularly release data on the investors base.
- ❑ http://www.tesouro.fazenda.gov.br/english/hp/public_debt_report.asp

- ❑ Non-resident investors may invest in the same products available to local investors with free transit from equity-related investments to fixed income investments and vice-versa, observing the applicable tax treatment differences.
- ❑ Financial assets and securities as well as other modes of financial operations carried out by non-resident investors resulting from applications under Resolution 2689/2000 must, according to the nature thereof:
 - ❑ Be registered, under custody or maintained in deposit account in institution or entity authorized to provide such services by the Central Bank or CVM; or
 - ❑ Be duly registered in registration, settlement and custody systems recognized by the Central Bank or authorized by CVM in their relevant scopes as the case of BM&FBOVESPA.
- ❑ Whenever requested, depository institutions and entities providing custody and registration should make available to the Central Bank and CVM the registrations concerning the applications, in individualized form, by non-resident investor.

Contracting and Registration with Custodian

See page 12 from http://www.bestbrazil.org.br/pages/publications/BrazilianCapital/Pratical_Guide.pdf

Registration at the Central Bank

See page 14 from http://www.bestbrazil.org.br/pages/publications/BrazilianCapital/Pratical_Guide.pdf

Simplified Registration for Foreign Investor (CVM Instruction 419/2005)

- ❑ Aiming at the recognition of the existing relationship between the Local Brokerage Firm and the Foreign Intermediary as well as the flexibility for foreign investments rules and expedition and facilitation of registration process of foreign investor in Brazil, the brokerage firms received the option to register, in simplified form, their non-resident investors, adopting for that, the rules set forth by the Stock Exchanges and entities managing the organized over-the-counter market, previously approved by CVM.
- ❑ For the adoption of simplified registration form the non-resident investor shall be a client of a foreign intermediary institution where the investor must be properly registered under the applicable legislation in the country of origin thereof. Besides, the foreign intermediary shall assume, before the local broker, the obligation to submit, duly updated and whenever requested, the following information:
 - ❑ All information required by CVM on the registration of investors within the stock exchange scope; and
 - ❑ Other information required by Brazilian public bodies with supervision powers.
- ❑ For adoption of simplified registration, the foreign intermediary institution's country of origin can neither be assessed as a high-risk country in terms of money laundering and terrorism financing nor considered as a non-cooperating country with international bodies in combating those. Besides the regulating body of the capital market of the country of origin of the foreign intermediary institution must have entered into with CVM a mutual cooperation agreement enabling the interchange of investors' financial information.

Registration for Foreign Investor (CVM Instruction 387/2003)

- ❑ Brokerage firms not electing the Simplified Registration provided for in CVM shall register their non-resident investors according to the rules in CVM Instruction No. 387/2003. According to such Instruction, brokers should effectuate the registration of their clients and keep them updated and should further provide to Stock Exchanges and the Settlement and Clearing Houses according to standard defined thereby, such basic registration data of each client in order to enable their perfect identification and qualification.

ANNEX

ANBIMA`s Non-Resident Investors Guide Updated in December 2011

The Anbima* recently released another handout which explains the procedures to invest in the Brazilian Capital Market. The link is presented below:

<http://investors.anbima.com.br/Pages/Home.aspx>

For a quick information, please go to :

Publication => Non-Residents Investors Guide

http://investors.anbima.com.br/Lists/Anbima%20Studies/Attachments/2/Non-resident_Investors_Guide.pdf

Representative's Responsibilities

- | |
|---|
| <p>a. Maintain under its safeguard and submit to the Central Bank and CVM whenever requested the Non-Resident Investor Identification Form (Annex to Resolution 2689/2000, see Part II hereof), as well as the representation and custody contracts entered into;</p> |
| <p>b. Effect and maintain current the registrations with CVM and the Central Bank;</p> |
| <p>c. Provide the Central Bank and CVM with information requested;</p> |
| <p>d. Guarantee the non-resident investor's signature in the identification form;</p> |
| <p>e. Immediately notify the Central Bank and CVM of the termination of the representation contract as well as observing the relevant competencies, the occurrence of any irregularity that may come to its knowledge;</p> |
| <p>f. Monthly present to CVM information bulletins on the portfolio composition;</p> |
| <p>g. Collect the portfolio monitoring fee to CVM (see Item 9);</p> |
| <p>h. Sign a Custody Contract for financial assets and securities held by the non-resident investor (optional);</p> |
| <p>i. Submit, in case of remittance abroad, to the intervening bank, such documents proving the distribution of earnings, the ownerships and sale of assets that generated them or were sold and the collection of taxes (such duty may be alternatively performed by the custodian);</p> |
| <p>j. Inform to the Central Bank the transfers of foreign investment under Resolution No. 2689/2000 for the Depositary Receipts mechanism.</p> |

Identification Form

Non-Resident Investor Identification Form (Annex to Resolution 2689/2000);

NON-RESIDENT INVESTOR REGISTRATION

CMN RESOLUTION 2689 of 26/01/2000

I – IDENTIFICATION OF NON-RESIDENT INVESTOR

1 – NAME OR CORPORATE NAME OF INVESTOR:

2 – ADDRESS

STREET ADDRESS:

COMPLEMENT:

CITY:

STATE / PROVINCE:

COUNTRY:

ZIP CODE:

E-MAIL:

3 - NATIONALITY: (when investor is an individual)

4 – COUNTRY OF INCORPORATION: (when investor is not an individual)

5 – QUALIFICATION (CMN RESOLUTION NO. 2689 OF 26/01/2000):

() a - Commercial banks, investment banks, savings and loan associations, global custodians and similar institutions regulated and monitored by the relevant governmental authorities;

() b - Insurance companies regulated and monitored by the relevant governmental authorities;

Identification Form

c - Corporations or entities whose purpose is the distribution of issue of securities or act as underwriters in the trading of securities, acting on their own account or for third parties, registered and regulated by bodies recognized by CVM;

d - Pension funds regulated by the relevant governmental authorities;

e - Non-profit institutions as long as regulated by the relevant governmental authorities;

f.i - Any entity whose purpose is the application of funds in money and capital markets and in which only those individuals and legal entities domiciled abroad participate, provided that they are registered and regulated by a body recognized by CVM;

f.ii - Any entity whose purpose is the application of funds in money and capital markets and in which only those individuals and legal entities domiciled abroad participate, provided that the portfolio is managed in a discretionary form by a professional manager registered and regulated by entity recognized by CVM

g - Other collective investment funds or entities;

h - Legal entities incorporated abroad;

i - Individuals domiciled abroad.

6 – TYPE OF INVESTOR:

Account Holder of an Own Account;

Account Holder of an Omnibus (Collective) Account;

Participant (passenger) in Omnibus Account.

Identification Form

7 - TAX TREATMENT OF INVESTOR IN BRAZIL

1 – TAXATION ON CAPITAL GAINS:

- Exempt
 Not exempt

2 – TAXATION ON INCOME:

- Exempt
 Not exempt

II – IDENTIFICATION OF REPRESENTATIVE:

1 – REPRESENTATIVE

NAME OR CORPORATE NAME:

CNPJ/CPF

RESPONSIBLE FOR REGISTRATION OF FOREIGN CAPITAL?

yes no

Identification Form

2 – CO-OBLIGOR (included in Paragraph Two of Article Three of Resolution 2689/2000)

(To be filled out only when the investor is the holder of own account or omnibus account and the representative is not a financial institution authorized to operate by the Brazilian Central Bank)

CORPORATE NAME:

CNPJ:

3 – TAX REPRESENTATIVE

CORPORATE NAME:

CNPJ:

III – IDENTIFICATION OF CUSTODIAN:

CORPORATE NAME:

CNPJ:

In case of constitution of own account or omnibus account the representative shall

- Inform CVM the Electronic Declaratory Registration (RDE) number at the Brazilian Central Bank as soon it becomes available; and
- Forward, within 15 days after application for registration, a copy of the form Annex to CMN Resolution Number 2689 of 26/01/2000 duly filled out and signed by the non-resident investor as well as a copy of the Representation and Custody Contract.

The non-resident investor must qualify under one of the following classifications to be registered with the Central Bank and the CVM

CLASSIFICATIONS	SIE-CVM Code
a. Commercial banks, investment banks, savings and loans associations, global custodians and similar institutions, regulated and supervised by the appropriate government authorities;	101
b. Insurance companies regulated and supervised by the appropriate government authorities;	102
c. Corporations and entities acting as underwriters or traders in the negotiation of securities, acting on their own account or third parties registered and regulated by a CVM recognized body;	103
d. Pension funds regulated by the appropriate government authorities;	104
e. Non-profit institutions as long as they are regulated by the appropriate government authorities;	105
f. Any entity whose purpose is the investment of funds in money and capital markets whose participants are exclusively individuals and legal entities residing and domiciled abroad, as long as registered and regulated by a CVM recognized body;	106
g. Any entity whose purpose is the investment of funds in money and capital markets whose participants are exclusively individuals and legal entities residing and domiciled abroad as long as the portfolio management is carried out at the discretion of a professional manager registered and regulated by a CVM recognized entity;	107
h. Other funds or collective investment entities;	108
i. Legal entities organized abroad;	109
j. Individuals residing abroad.	110

- ❑ The non-resident investor can operate through the following types of accounts:
 - ❑ as the Account Holder of an Own Account; or
 - ❑ as a Account Holder of an “Onibus” or Omnibus (Collective) Account; and/or
 - ❑ as a Participant (passenger) in an Omnibus Account.

REGISTRATION PROCESS AND ACCESSING LOCAL MARKET

Type	Holder of Own Account	Participant of Omnibus Account (“passenger”)
Advantages	<ul style="list-style-type: none"> • Own and exclusive control of portfolio; • Choice of representative and custodian 	<ul style="list-style-type: none"> • Operational simplicity: <ul style="list-style-type: none"> - Adhesion to the holder’s representation and custody contracts; - Same RDE as the Holder’s; • Sharing of costs;
Disadvantages	<ul style="list-style-type: none"> • Higher cost • Greater operational complexity 	<ul style="list-style-type: none"> • Opening of the portfolio position to the omnibus account holder.