

MAY 2008
WASHINGTON DC



GEMLOC PANEL DISCUSSIONS

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Background - Tax System

- **2005:** Regressive withholding taxes as a function of time.
 - Tax incentives to hold longer term securities:
 - 22.5% up to 6 months;
 - 20.0% from 6 months to 1 year;
 - 17.5% from 1 to 2 years;
 - 15.0% if higher than 2 years.

- **2006**
 - As of Feb-06, foreign investors were exempted from withholding taxes (15%).

- **2007**
 - Extension of 0.38% CPMF (financial transaction tax) was not approved by the Legislative.

- **2008**
 - As of Mar-08, the 1.5% IOF (regulatory tax) was introduced to fixed income investments for foreign investors.



Background - Improvements in Debt Management Practices

■ Creation of Benchmarks:

■ Fixed-rate securities:

- Maturities defined in a way to coincide with dates of maturity of contracts in the derivative market. Issuance of notes (*NTN-F*) with 3, 5 and 10 years maturity.

■ Inflation-linked securities:

- Longer maturities concentrated in different months from those established for fixed-rate securities. Issuance of notes (*NTN-B*) with 3, 5, 10, 20, 30 and 40 years maturity.

■ Repurchase Auctions:

- Fixed-rate securities: Repurchase of short term securities to reduce refinancing risk.
- Inflation-linked: Repurchase of long term securities to reduce liquidity risk;

■ Exchange Auctions:

- Exchange of short term for longer term LFT (floating rate);
- Exchange of floating-rate and other indexed securities for inflation-linked instruments.

■ Spread Auctions: give parameters during periods of volatility.



Background - Dealers System (National Treasury and Central Bank)

- **Primary dealers:** 10 institutions focusing on primary auctions and money-market operations.
- **Specialist dealers:** 8 institutions focusing on the secondary market.
- **Duties and benefits of the dealers**
 - **Duties:**
 - Have meaningful participation on primary auctions, secondary market and open market operations;
 - Supply the National Treasury and the Central Bank desks with relevant information from bond market and open market operations.
 - **Benefits:**
 - Right to bid on competitive auctions exclusive for dealers;
 - Right to bid on non-competitive auctions exclusive for dealers;
 - Securities lending;
 - Open market operations (Repo).
- **New rules for specialist dealers:** Incentives for providing bid-ask spreads in specific intervals at market opening and close in electronic trading systems.



Background - Custody, Depository and Settlement

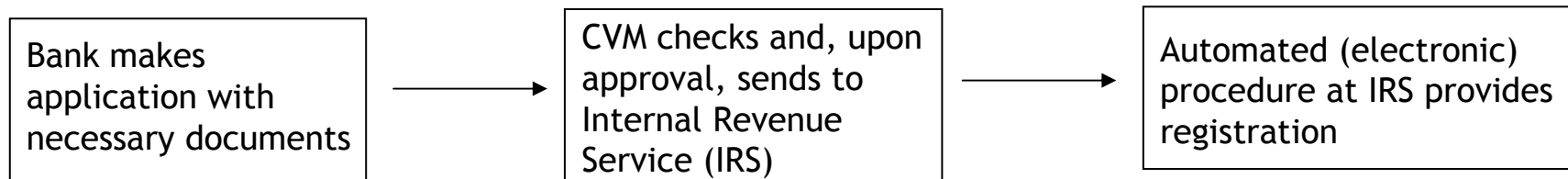
- 80's until mid-90's: high inflationary process.
- Privatization, internationalization and consolidation of banking system.
- Know-how of inflationary times permitted the creation of one of the most sophisticated settlement systems of the world.
 - SPB - Brazilian Settlement System
 - SELIC - local custodian for federal government securities
 - BOVESPA - local stock exchange
 - BM&F - local commodities and future markets exchange
 - CETIP - local custodian for corporate securities
 - CBLC - local custodian for stocks
- Transparency
 - Identification of securities owners - IOSCO parameter - avoid laundry money
- Market - Size matters
 - Brazil represents about 11% of world's total market cap in domestic inflation linked bonds (Barclay's GIBL index)
 - Brazil represents about 13% of EM market cap in domestic fixed rate bonds (GBI Broad index)



Challenges to increase foreign investments

■ I - Reduction of “Red Tape”

- Need to choose a local representative for custody, brokerage and FX management, and register at CVM and Brazilian IRS (24 hours).



■ II - Tax System

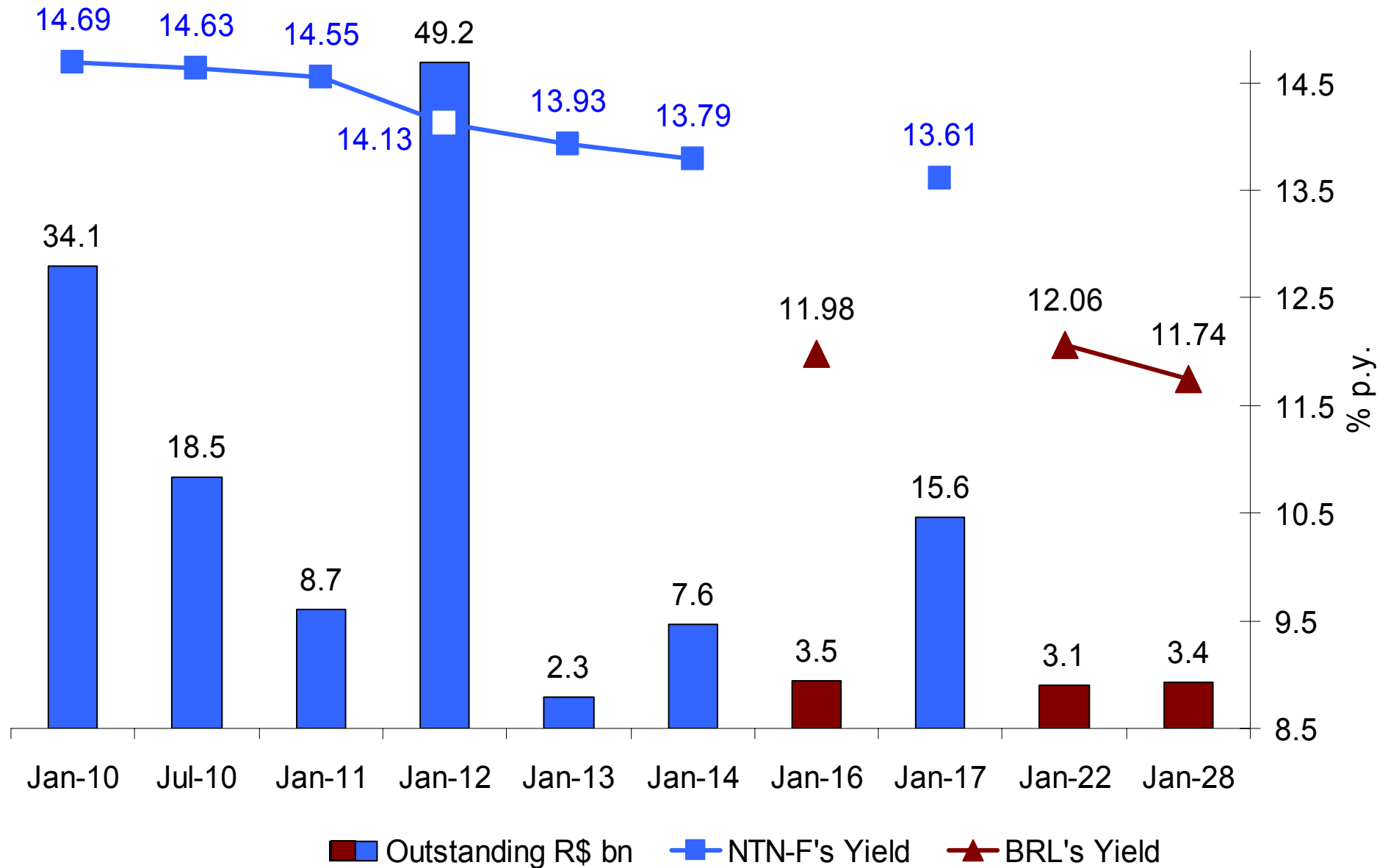
- The 1.5% IOF tax on incoming FX transactions related to investments in the local fixed income market aimed at discouraging short-term capital. The measure aimed at recovering part of the tax loss due to the end of CPMF;

■ III - Liquidity.



Fixed Rate Bonds: on-shore and off-shore

Outstanding and yields (as of May-08)

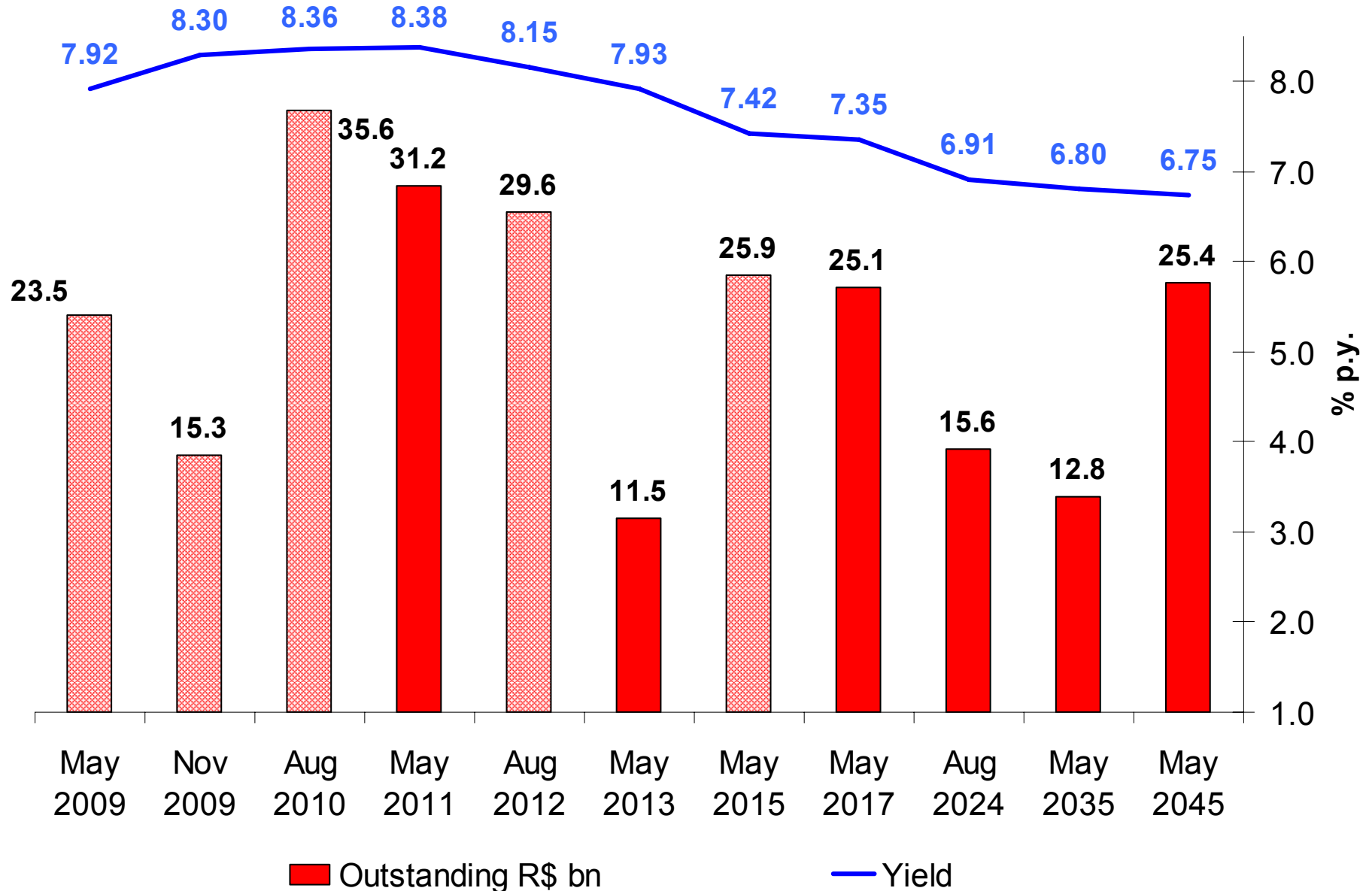


Source: ANDIMA and Bloomberg



Inflation Linked Bonds

Outstanding and yields (as of May-08)



Source: ANDIMA

Note 1: The may/09, aug/10, may/11 and may/15 NTN-B are not issued anymore.

Note 2: There are NTN-Bs with other maturities.