



Monthly Report July

Debenture funding reinforced by decrease in interest rates

THE DECREASE IN THE SELIC RATE TARGET IN 0.5 PERCENTAGE POINT IN THE END OF JULY, COMPLEMENTING THE REDUCTION OF THE BASE RATE IN FIVE PERCENTAGE POINTS IN 2009 HAS CONTRIBUTED TO DRIVE COMPANIES' WILL TO RAISE FUNDS BY DEBENTURE ISSUES IN CAPITAL MARKETS. IN JULY ALONE, SEVEN COMPANIES – FIVE OF WHICH IN THE ELECTRIC SECTOR – RECORDED ISSUES IN THE BRAZILIAN SECURITIES AND EXCHANGE COMMISSION, USING TRADITIONAL PROCEDURES OF CVM RULE 400/03, ALIGNED TO THE BENEFITS OF THE SIMPLIFIED REGISTRATION ENABLED BY CVM RULE 471/08. R\$2.73 BILLION IN NEW ISSUES WAS RECORDED IN THE AUTARCHY IN THE MONTH, TOTALING R\$8.1 BILLION IN THE YEAR, WHICH IS HIGHER THAN THE VOLUME OF COMMERCIAL PAPER RECORDED IN THE SAME PERIOD – BY MEANS OF THE SAME MODALITY – WHICH REACHED A LITTLE MORE THAN R\$6 BILLION.



Although the volume is reduced when compared to those observed in previous years, the diversification of companies that have accessed the market stand out, with the absence of funding of financial companies (leasing), which accounted for most of the funding volume in 2007 and 2008.

Taking into consideration the debenture's offers made with restricted efforts, according to the provision in CVM Rule 476/09, which sets forth its distribution to qualified investors, another R\$3.6 billion in debentures was raised in 2009, increasing the annual volume to R\$11.7 billion.

The additional volume of funding and the appreciation of debentures deposited with Cetip – of which 93% are indexed to DI (Interfinancial Deposit) – contributed to the 6% growth of this asset stock, compared to the end of 2008.

The scenario of lower interest base rate creates a better environment for the fund raising by companies, compared to rates at the peak of the international credit crisis, and at the same time reinforce the movement of private security seeking by institutional investors and individuals, aiming at increasing profitability in their investment portfolios.

However, despite recent announcements by financial institutions on the creation of investment funds with portfolios focused on private loans, the latest data available from industry funds, related to June, show that the percentage of debentures in the portfolio remains close to 4%, which is the same average observed since 2006, showing that other private securities, such as CDB, accounted more actively for greater involvement of private securities in the period.

The increased demand for debentures can also be substantiated by the recent growth of its secondary negotiations. Between January and July 2009, final debenture trading in the secondary market in Cetip recorded an R\$61.5 billion volume, 80% higher than the observed in the same period in the previous year. The same movement occurs even if excluding the debentures issued by leasing companies – on this basis of comparison, the volume traded in the first half reached twice the volume observed in the first half of 2008.

In this aspect, the greatest impact of the absence of new issues by leasing companies in the secondary trading was in the repo operations with debentures, which, from January to July, decreased by 11% compared to the same period in the previous year.

Additionally, the decrease in the issue volume of leasing reduced the average maturity of debentures recorded in 2009 as these assets had long maturities as a common feature. In 2009, the average term of debentures, taking into consideration both the final maturity and the provisions in clauses of asset renegotiation reached 5.8 years. It is noteworthy that the maturity of most assets distributed in 2009 was lower than this, and that with the exclusion of one single issue with a ten-year maturity, such an average decreases to 2.2 years.



However, although one can observe an increase in the interest in debenture acquisition by retail investors, the consolidation of this movement also depends on some progress. First, because the debentures are securities of complex pricing – which have quite different characteristics for each issue – requiring, as in any investment, detailed knowledge of the clauses in their deeds of issue, in their prospectuses. Thus, there is a growing concern by regulatory agencies related to suitability matters, that is, the need of intermediary institutions to certify financial product adequacy offered to investors' risk profile. Moreover, despite the recent increase observed in the secondary asset trading, the ratio between the volume traded and the asset stock available in the market is still considered significantly low when compared to international liquidity standards.

Finally, tax distortions to which fixed income assets are subject in their trading should be highlighted, which affect the liquidity in the secondary market, discouraging individuals' demand for securities which pay coupon: the lack of clarity in the way of ascertainment of the calculation basis for Income Tax (IR) levy and IR decreasing rate levy on the regular periods ascertained, on the occasion it is perceived, regardless the period in which the investor will keep the security.



Interview – Marcelo Flora

CVM rule favored acceleration in the market

THE RESTART OF DEBENTURE ISSUES IN THE FIRST HALF OF 2009, SPECIFICALLY OFFERS WITH RESTRICTED EFFORTS, HAS BEEN EXCEEDING THE CONCENTRATION OF COMMERCIAL PAPER ISSUES, SECURITIES WITH SHORTER PERIODS, OBSERVED SINCE THE END OF LAST YEAR. IN THIS INTERVIEW TO FONTE ANDIMA, UBS PACTUAL ASSET MANAGEMENT'S CEO AND CHAIRMAN OF THE ASSOCIATION'S SECURITIES COMMITTEE MARCELO FLORA, EXAMINES THE MARKET SCENARIO.

What is your evaluation in such a change in the behavior and what are the indications for the second half of the year?

This movement can be explained, in great part, by the recent process of risk aversion reduction observed in the markets in general since the beginning of the year. But it was certainly accelerated by the issue of CVM Rule 476/09, enabling the distribution of debentures without registration with the Autarchy or need for publications such as notices to the market and announcements of commencement and closure of distribution. CVM's goal with the edition of the ruling is to reduce the costs of public offerings, making issuers' access to the capital markets easier since the securities offered are purchased by up to 20 investors and offered to a maximum of 50 qualified investors.

With the crisis worsening and especially between August last year and January this year, investors became more selective and began to seek assets with higher returns. Thus, in order to reduce the impact of your long-term operations, due to the higher cost of borrowing, firms sought to reduce the issue periods; thus, the commercial papers stood out, since CVM Rule 476/09 was issued only on January 16, 2009.

The process of registration with the CVM for a debt issue by commercial papers is faster and cheaper than in the case of a debenture that do not use the benefits provided by the rule.

The disadvantage of commercial papers when compared to debentures is the term, since the first can be issued for a maximum period of 180 days, in the case of closed joint-stock companies, or up to 360 days, in the case of publicly-held joint-stock companies, while the debentures do not suffer such a restriction. This is why in times of crisis there is an increase in the number and volume of commercial papers issues, but now that the credit spreads return to pre-crisis



levels, it is natural that companies retake long-term funding, and thus the debentures will stand out more.

For the second half, the trend is that operations with longer terms are issued by companies. In January, Bradespar issued commercial papers with six-month maturity and 110% CDI remuneration; in the beginning of July, the same company restarted issuing, this time debentures with one-year maturity and 105 % CDI remuneration. Another example were Coelce's and CCR's recent operations, in which both issued debentures with five-year maturity and remuneration in Extended Consumer Price Index (IPCA) plus 7.50%.

Another trend already experienced in the first half which will be enforced up to the end of the year, with the possible revision of CMN Rule 3,456, which provides guidelines on the pension fund investment, will be the increase in number and volume of debenture issues by CVM Rule 476/09. Currently, pension funds cannot participate in offers with restricted efforts, but there is a strong market expectation that such a prohibition will be excluded from the rules to replace CMN Rule 3,456.

The first half of 2009 showed an increase in trading in debentures' secondary market. At present, considering the intense fund reallocation, how do you see investors' interest in private securities, particularly retail investors?

The increase in retail participation will certainly contribute significantly for further improvements in the liquidity of these assets. More issues focused on this type of investor are necessary, and the participation of major retail banks' and brokerage firms' private banking areas will be fundamental.

Despite the increase in trading in the secondary market, this security is still characterized as illiquid, from the point of view of the ratio between trading volume and stock available. What measures could be effective to increase the liquidity of this asset?

The increased use of electronic platforms, such as BovespaFix and CetipNet, would help by ensuring greater transparency in trading and better pricing, basic requirements to attract pension funds, insurance companies and institutional investors in general, which now operate more modestly in this market, which offers excellent opportunities. Moreover, without doubt, the tools developed by ANDIMA for pricing securities and comparing prices have greatly contributed to increase the liquidity of these assets.