



# SINOPSE

March 2007

## Receivables funds gaining force as an innovative funding instrument

THE FAVORABLE MACROECONOMIC SCENARIO, WITH PRICE STABILITY AND DECLINING INTEREST RATES, HAS BEEN INCREASING VISIBILITY FOR BOTH INDIVIDUALS AND COMPANIES, AN ESSENTIAL CONDITION FOR LONG-TERM PLANNING AND THUS FOR INVESTMENT DECISIONS. THIS ENVIRONMENT HAS INFLUENCED THE GROWTH OF CREDIT IN BRAZIL, WHICH EXPANDED BY 20.7% IN 2006, AND HAS ENCOURAGED COMPANIES TO SEEK LESS EXPENSIVE FUNDING ALTERNATIVES EMPLOYING STRUCTURED OPERATIONS. THE MAIN HIGHLIGHT IN THIS CONTEXT HAS BEEN THE DEVELOPMENT OF RECEIVABLES INVESTMENT FUNDS (FIDC), AN INSTRUMENT THAT HAS EMERGED AS AN FUNDING ALTERNATIVE FOR COMPANIES – SOMETIMES COMPETING WITH BANK LENDING BUT AT OTHER TIMES EVEN STRENGTHENING IT. THIS ISSUE OF SINOPSE ANALYZES THE MAIN CHANGES IN REGULATIONS AND THE GROWTH IN THE FIDC INDUSTRY SINCE OCTOBER 2005, BASED ON THE UPDATED DATA CONTAINED IN THE PUBLICATION **ESTUDO ESPECIAL – PRODUTOS DE CAPTAÇÃO: FIDC** [SPECIAL STUDY – FUNDING PRODUCTS: FIDC], PREPARED BY ANDIMA. THE SUPERINTENDENT OF SECURITIES REGISTRY, CARLOS ALBERTO REBELLO, IN AN INTERVIEW WITH SINOPSE, ANALYZES THE CHANGES IN THE INDUSTRY’S RULES IN LIGHT OF THE EXPERIENCE ACCUMULATED BY THE MARKET OVER THE PAST FEW YEARS.

## Growth in the FIDC industry

Over the past few years, Receivables Investment Funds (FIDC) have become an important method of funding for companies, whether financial or not, and have been registering strong growth since their creation in 2001. Since December 2002, when the first registrations were made at Brazil's securities and exchange commission, the CVM, up until March 2007, a total of 168 quotas were registered, both senior and subordinated, in public offerings in the total amount of R\$ 29.5 billion. In 2006, the volume registered exceeded that in 2005 by almost 50%, with the average number of offerings rising to 4.3 in the first quarter of 2007 from 3.7 in the same period a year ago, accompanied by a reduction in the average volume registered from R\$ 693 million to R\$ 434.5 million. This lower volume seems to have been impacted by the registration of quotas, in January 2006, of a company in the electricity sector of a particularly high amount, though not affecting the outlook for the industry's growth in 2007. Nevertheless, over the years it has been observed that registrations typically increase in the second half of the year, which seems to result from the fact that companies use FIDC as a way to unburden their balance sheets.

In view of the significant increase in primary issuances of FIDC, the volume of trades in the secondary market also increased, although they remain at lower levels. The volume traded in 2006 was R\$ 2.8 billion, of which R\$ 1.9 billion was in the FIDC Quota Registry and Trading system of the CETIP – Custody and Settlement and R\$ 875 million in the São Paulo Stock Exchange – Bovespa (Soma and BovespaFix). However, trading volume in 2006 almost doubled in relation to the volume of R\$ 1.6 billion observed in 2005.

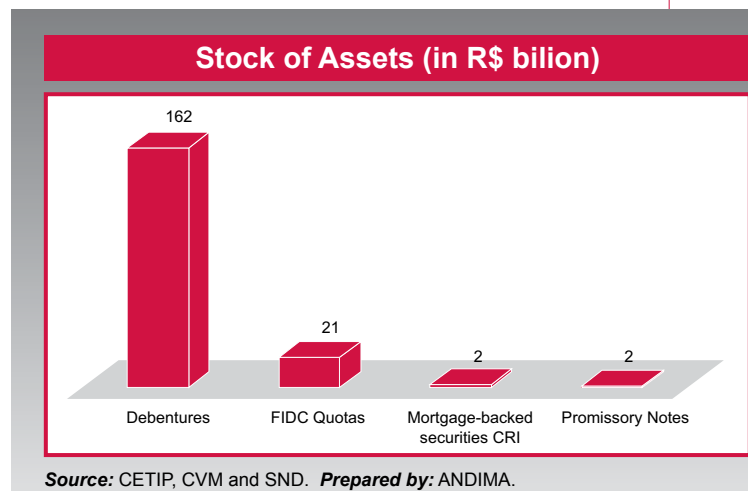
In March 2007, the total net assets of FIDC reached R\$ 21.4 billion, which corresponded to 140 funds registered with the CVM. Of this total, 95 (and three FIC-FIDC) were constituted as closed-end funds and 41 as open-end funds (and one FIC-FIDC). Note that the total net assets of

DCIF / INQ Quotas Offers <sup>(1)</sup> (volume in R\$ million)				
Period		Registered Offers		Offers without Register
Year	Semester	Offers	Volume <sup>(2)</sup>	Amount of Offers
2002		3	200	1
	2º	3	200	1
2003		11	1.540	7
	1º	5	895	2
	2º	6	645	5
2004		32	5.135	11
	1º	15	1.700	6
	2º	17	3.434	5
2005		46	8.579	17
	1º	17	3.482	4
	2º	29	5.097	13
2006		63	12.777	13
	1º	24	4.216	4
	2º	39	8.561	9
2007		13	1.304	2
	1º	13	1.304	2
<b>Total</b>		<b>168</b>	<b>29.535</b>	<b>51</b>

(1) Funds registered at CVM until mar/07. (2) Estimated fund raising volume. **Source:** CVM. **Prepared by:** ANDIMA.

closed-end funds account for 84.5% of the total FIDC industry.

In terms of total assets, since September 2005, the base year for the survey conducted in the analysis Estudo Especial – Produtos de Captação: FIDC (Special Study – Products for Funding: FIDC), the industry grew by 63%, still accounting for a small stock compared to other funding alternatives, such as debentures, which in March accounted for total net assets of R\$ 162 billion.



FIDC have proven to be a funding alternative also for privately held companies or companies that do not have the structure or risk level that enables them to use traditional instruments in the capital market, such as promissory notes or debentures. However, FIDC, debentures and other corporate credit securities can be considered complementary instruments, depending on the specific objective of the company carrying out the funding operation, whether in terms of duration or even in terms of the funding inflow required.

The number of holders of senior FIDC quotas increased from 85 in October 2005 to 132 in March 2007. A higher concentration of the distribution of FIDC quotas per investor has been observed as funds

aimed at exclusive quota holders and those with less than 20 senior quota holders have increased their share in the overall industry from 25% to 32% and from 60% to 74%, respectively, over the same comparison base. This concentration ultimately reflects not a limitation but rather a characteristic of the product, which is aimed at qualified investors, particularly institutional investors, for which the effort exerted in the analysis of their investments comes to be justified starting at a certain minimum volume to be acquired that is compatible with the size of their portfolio.

The number of agents involved in the industry has also increased. The total number of institutions administering FIDC portfolios rose from 26 in October 2005 to 31 in March 2007, with the concentration in

### Ranking of Management Institutions, per Fund position and net worth (in R\$ million)

Financial Institutions	Closed funds			Open funds			Total		
	Nº	P/E	%	Nº	P/E	%	Nº	P/E	%
Asm Asset Management DTVM S.A.	1	0,6	0,0	-	-	-	1	0,6	0,0
Banco ABN Amro Real S.A.	1	316	1,7	-	-	-	1	316	1,5
Banco BBM S.A.	1	3,2	0,0	1	13	0,4	2	16	0,1
Banco Bradesco S.A.	1	396	2,2	-	-	-	1	396	1,9
Banco do Estado do Rio Grande do Sul S.A.	1	112	0,6	-	-	-	1	112	0,5
Banco Fator S.A.	1	100	0,6	-	-	-	1	100	0,5
Banco Modal S.A.	1	3,7	0,0	1	26	0,9	2	30	0,1
Banco Opportunity S.A.	1	29	0,2	-	-	-	1	29	0,1
Banco Rural S.A.	-	-	-	1	41	1,4	1	41	0,2
Banco Safra de Investimento S.A.	2	57	0,3	-	-	-	2	57	0,3
Banco Santander Brasil S.A.	1	263	1,5	-	-	-	1	263	1,2
Banco Westlb do Brasil S.A.	1	157	0,9	-	-	-	1	157	0,7
Bem DTVM Ltda.	14	3.150	17,4	8	550	18,2	22	3.700	17,5
Caixa Econômica Federal	1	273	1,5	-	-	-	1	273	1,3
Citibank DTVM S.A.	-	-	-	1	62	2,0	1	62	0,3
Concórdia S.A. CVMCC	10	1.950	10,8	1	0,0	0,0	11	1.950	9,2
Cruzeiro do Sul S.A. DTVM	3	1.929	10,7	4	225	7,4	7	2.154	10,2
Gradual CCTVM S.A.	3	27	0,2	-	-	-	3	27	0,1
Hsbc Bank Brasil S.A. - Banco Múltiplo	3	397	2,2	-	-	-	3	397	1,9
Intrag DTVM Ltda.	11	4.571	25,3	-	-	-	11	4.571	21,7
J. Malucelli DTVM Ltda.	1	150	0,8	-	-	-	1	150	0,7
Lecca DTVM Ltda.	1	99	0,5	-	-	-	1	99	0,5
Mellon Serviços Financeiros DTVM S.A.	15	1.212	6,7	7	347	11,5	22	1.560	7,4
Oliveira Trust DTVM S.A.	11	1.331	7,4	5	178	5,9	16	1.509	7,2
Panamericano DTVM S.A.	-	-	-	3	704	23,2	3	704	3,3
Petra Personal Trader CTVM Ltda.	1	14	0,1	4	37	1,2	5	51	0,2
Planner CV S.A.	1	40	0,2	-	-	-	1	40	0,2
Rio Bravo Investimentos S.A. DTVM	2	72	0,4	1	41	1,4	3	113	0,5
Safdié DTVM Ltda.	1	51	0,3	-	-	-	1	51	0,2
UBS Pactual Serviços Financeiros S.A. DTVM	3	415	2,3	2	231	7,6	5	646	3,1
Votorantim Asset Management DTVM Ltda.	2	945	5,2	2	573	18,9	4	1.518	7,2
<b>Total</b>	<b>95</b>	<b>18.064</b>	<b>100</b>	<b>41</b>	<b>3.029</b>	<b>100</b>	<b>136</b>	<b>21.092</b>	<b>100</b>

Note: Data regarding funds registered at CVM until mar/07. Sources: CVM and Management Institutions. Prepared by: ANDIMA.

### Custodians, per Fund Position and Net Worth (in R\$ million)

Financial Institutions	Closed funds			Open funds			Total		
	N°	P/E	%	N°	P/E	%	N°	P/E	%
Banco Bradesco S.A.	22	4.813	26,6	9	591	19,5	31	5.404	25,6
Banco do Brasil	4	644	3,6	-	-	0,0	4	644	3,1
Banco Itaú S.A.	42	9.247	51,2	12	1.038	34,3	54	10.284	48,8
Banco Modal S.A.	1	3,7	0,0	-	-	0,0	1	3,7	0,0
Banco Opportunity S.A.	1	29	0,2	-	-	0,0	1	29	0,1
Banco Rural S.A.	-	-	0,0	1	41	1,4	1	41	0,2
Banco Safra S.A.	2	57	0,3	-	-	0,0	2	57	0,3
Banco Santander Banespa S.A.	2	326	1,8	1	30	1,0	3	357	1,7
Banco Westlb do Brasil S.A.	1	157	0,9	-	-	0,0	1	157	0,7
BBM CCVM S.A.	1	3,2	0,0	1	13	0,4	2	16	0,1
Citibank DTVM S.A.	-	-	0,0	5	549	18,1	5	549	2,6
Deutsche Bank S.A.	19	2.785	15,4	12	766	25,3	31	3.551	16,8
<b>Total</b>	<b>95</b>	<b>18.064</b>	<b>100</b>	<b>41</b>	<b>3.029</b>	<b>100</b>	<b>136</b>	<b>21.092</b>	<b>100</b>

**Note:** Data regarding funds registered at CVM until mar/07. **Source:** CVM and Management Institutions. **Prepared by:** ANDIMA.

terms of total assets under management declining, although only residually. While in October 2005 only three institutions administrated roughly 57% of net assets, in March 2007 this same percentage was administrated by four institutions. At any rate, the concentration is still high – only seven institutions administer roughly 80% of the total assets in the industry, which correspond to 82 funds within a universe of 136 funds (please see the table). Two other institutions administer eight funds with lower average value, however they represent some 6.37%, so that only nine institutions administer 90 funds (66%) that correspond to 87% of the total net assets.

In terms of custody services, growth in the number of institutions has also been observed, which rose from eight in October 2005 to 12 in March 2007. However, the level of concentration remained stable in the period, with only two institutions providing custody services to approximately 74.4% of funds (in terms of net assets), with one of them accounting for 48.8%.

The high degree of concentration, whether in terms of portfolio administration or custody services, appears to be explained by the complexity of the services required by the industry, which has as its principal asset credit receivables or rights, for which the control logic and payment-flow logic is extremely specific.

An important change observed in the industry is the significant improvement in the quality of the information available in terms of primary placements

and the fund documentation available on the CVM website, and to a lesser degree the trades carried out in the secondary market. At any rate, from an analytical standpoint there is still lacking, especially in the primary market, the creation of a databank with consolidated data for the industry year after year that makes possible historical monitoring of the product and its transformations.

## Main modifications in regulations

The growth and the maturation of the industry over the past few years have brought innovations in structures, types, receivables and have demonstrated the need for controls and standardization that led in 2006 the CVM, through discussion with the market, to effect various important changes in the regulations governing FIDC .

This year the CVM has also changed the criteria for the granting of registrations for the operation of FIDCs, in conformance with CVM/SER Circular Letter No. 671 of 3/29/2006, clarifying that the registration of operation would not be granted to FIDC that do not carry out public offerings for the distribution of their quotas or obtain an exemption for their registration. As a result, quotas with private offerings will no longer be considered securities subject to CVM regulations, in conformance with the provisions of

Law No. 6,385/76, which determines that any pool of securities or agreements that are offered publicly, a definition for which FIDC quotas qualify, are considered securities subject to this law.

CVM Instructions 435, 442 and 446, issued in 2006, amended the provisions of Instruction 356/01, which regulate the creation and operation of FIDC and FIC-FIDC, while Instruction 444/06 instituted the Non-Standardized Credit Receivables Investment Fund (FIDC-NP). The draft texts that provided the bases for Instructions 442 and 444 were subjected to public hearings (EAP No. 4) by the CVM, as part of the effort by the CVM over the past few years to discuss with the market the changes proposed.

The main modification brought by Instruction 442 of 12/19/2006 was the requirement that the prospectus of the FIDC be prepared in conformance with the provisions of CVM Instruction 400/03, which pertain to public offerings for the distribution of securities in both the primary and secondary markets. This alteration increased the requirements for the preparation of prospectuses in terms of standardizing the degree of availability of information among the various different securities so as to eliminate any comparative advantages. The requirement also resulted in additional obligations for public offerings for the distribution of securities resulting from securitization operations, with a view to considering in the prospectus the specific aspects of these operations.

Also with the aim of bringing regulations in line with the new trends observed in the market, seeking to not compromise the degree of security or the industry's growth track, and, more specifically, to meet the needs of structures involving credit receivables with special characteristics, the CVM created the Non-Standardized FIDC by issuing Instruction 444/06. This category includes credit receivables with higher levels of risk, such as those

already overdue, those with payment pending and those originating from companies in the process of judicial reorganization. The perception of the CVM is that these funds demand from investors not only financial expertise but also more in-depth knowledge of the legal and operational aspects, given the differentiated risks involved. Since its creation on 12/8/2006 three FIDCs have been created under the non-standardized modality.

Lastly, it is important to note the increase from 10% to 20% of the maximum percentage for the funds' investment in FIDC quotas, as a result of Instruction 450 issued last week by the CVM, given the outlook of higher growth in the industry.

The evaluation of consolidated numbers for FIDCs shows that the industry is becoming an important port of access to the capital markets as its

flexibility allows for serving various different financing needs based on a wide variation of structures. In the short period of one year since the publication of Estudos Especiais – Produtos de Captação: FIDC (Special Study – Products for Funding: FIDC), on which this analysis focuses, it is possible to perceive, in addition to the strong growth, important transformations

incorporated as a result of the industry's high level of creative capacity. New segments continue to discover FIDC as a funding alternative, even though they have specific instruments – this is the case of the creation of funds based on real estate receivables or originating in the agricultural sector.

Similarly, the structuring of FIDC involving credit receivables from various segments also merits attention, which already account for at least 11% of the industry's total net assets. The Multi-segment FIDC brings the possibility of building a portfolio with credit receivables from smaller-sized companies, helping to increase the level of democratization of the access to capital markets. ■

Receivables Investment Funds Data		
Items	Oct/05	Mar/07
Operative Funds	85	136
Net Worth (R\$ billion)	13	21
Private equity Funds	60	95
Open end Funds	25	41
INQ-DCIF	5	4
Subordinated quota holders	144	192
Senior quota holders	1.384	2.514
Exclusive quota holders	22	45
Management institutions	26	31
Custodians	8	12

Sources: CVM and Management Institutions. Prepared by: ANDIMA.

# Non-standardized FIDC opens room for smaller-sized companies

Since its creation in 2002, given the outlook for greater macroeconomic strength and companies' financing needs, the FIDC has shown a vocation for the creation of new structures that include various different segments of the economy. With the new legislation that came into effect this year, the possibility of registering non-standardized FIDCs should attract capital market segments that traditionally did not operate with the securitization of receivables. According to the superintendent of the Securities Registration of the CVM, Carlos Alberto Rebello, the amendment of the regulations points to the trend of the market using these assets for experimental issuances, is attracting qualified investors. "The traditional FIDCs, which cover the payroll-backed and vehicle lending sectors, for example, ended up becoming commodities", said Rebello. This agility will result in a reduction in the time and costs required for structuring operations, making the product more efficient. "Thus the final investor will be better remunerated and there could be a greater number of players, generating greater competition in the market, and thus better trading conditions".

By consolidating its importance as an alternative funding instrument, in Rebello's opinion, FIDCs will prove to be an opportunity for smaller companies to experience the benefits of the capital market. "This could be the seed for these companies, which are not in a position to directly tap the market, to adapt to the required criteria of auditing, accounting and availability of information to investors, and in the future they could issue their own securities, such as debentures, commercial notes or stocks", Rebello believes.

The growth in the number of registrations of Multi-segment FIDCs reflects the increase in the

share of small- and medium-sized companies in the capital market, furthering their reach. According to the CVM's Registration Manager, Flávia Mouta, this type of fund paves the way for funding companies that have credit values that are insufficient for the structuring of an exclusive FIDC. "By bringing together various companies it's possible to achieve a higher volume of receivables", she explains. Moreover, according to Mouta, the perception of the market is that "capitalization via FIDCs offers lower costs than those in the banking market, for example".

Because securitization is a still incipient market in Brazil, Rebello believes that investors have not assimilated all of its potential. The meager dissemination of the culture of the financial engineering of the products of this industry and players' actual risk perception end up inhibiting further development of the market. Even so, after only a few years that FIDCs have existed, it is already possible from the accumulated experience to carry out the adaptations required by the product, which will be reflected in the amendment of the current regulations. "Within a horizon of three years we do not expect to see major changes in legislation, with the exception of accounting aspects".

According to Rebello, in the near term a public hearing should be held, prepared in conjunction with the fund industry and the Federal Revenue Service, to establish accounting standards for FIDCs. "Perhaps within the next few years, with the greater standardization of traditional FIDCs, we can authorize the public offering of these instruments to the general public and not just to qualified investors, in turn creating a greater volume of savings in these assets". ■

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