



Monthly Report September

Funding products and private securities are themes of a seminar

ANDIMA AND CETIP PROMOTED, ON THE 23RD, IN SÃO PAULO, THE SEMINAR FUNDING PRODUCTS AND PRIVATE SECURITIES, WHICH MAIN PURPOSE WAS TO INCREASE THE DISCUSSION AROUND THE CONSOLIDATION OF THE PRODUCTS INTENDED TO EXTEND THE FUNDING TERMS, BESIDES DISSEMINATING INFORMATION RELATED TO THE ISSUANCES AND NEGOTIATIONS OF PRIVATE SECURITIES. IN THE EVENT, IT WAS LAUNCHED THE PUBLICATION AGRIBUSINESS SECURITIES [AGRIBUSINESS SECURITIES] - CPR - CÉDULA DE PRODUCT RURAL [RURAL PRODUCT NOTE], SECOND BOOK OF THE SERIES ON FUNDING PRODUCTS, MADE BY ANDIMA IN PARTNERSHIP WITH CETIP. THIS ISSUE OF SYNOPSIS BRINGS A BRIEF ANALYSIS ON THE MATTERS APPROACHED IN THE SEMINAR, FUNDED BY THE OPINIONS OF THE LECTURERS AND OTHER PARTICIPANTS, IN ADDITION TO AN INTERVIEW WITH THE PRESIDENT OF THE NEW PRODUCTS COMMITTEE OF THE ASSOCIATION, CARLOS RATTO, MEDIATOR OF ONE OF THE PANELS OF THE MEETING.

Standardization and better knowledge of the new products favor credit growth

The first panel of the seminar Funding Products and Private Securities treated the consolidation of the private securities markets, with focus on the development of the agribusiness securities and CCB - Bank Credit Notes segment, which greater facility of execution and negotiation is contributing to the credit growth in the country. In fact, with the favorable macroeconomic environment observed in the last years, it was possible to observe the increase and change of the profile of credit operations of the financial system, which went from 30% in 2006 to 38% of the current GDP, with the increase of the average and long terms parcel, thus, higher than 361 days, whether for individuals or legal entities. In parallel, specific



instruments of direct funding to several sectors of economy were created, as well as securitization vehicles enabling higher rotation of credit.

In this sense, the traditional credit agreements are being replaced, to a great extent, by the issuance of CCB, which characteristics powered its expansion. Such growth came accompanied of the need to adjust to better practices, with the description of procedures related to the issuance and negotiation of CCB, work performed by ANDIMA by means of the Orientation Opinion No. 11 of the Operational and Ethics Committee of Andima. Supported by a broad survey with the associates that participate on the CCB market, the document identified procedures adopted by its participants and established a set of good practices in order to ensure the business environment works properly. The participants of the seminar considered the initiative was an advancement in the self-regulation of this market.

In the same direction, the lecturers mentioned the regulation proposed by CVM [Securities and Exchange Commission] on the public offers of securities distributed with restrict efforts, understanding that it had the purpose of protecting the non-qualified investors, which, at principle, should be directed to traditional assets, standardized and that offer disclosure of information. However, the participants were unanimous in pointing out that, CCB being a credit instrument and that the institutions, so far, are making private distributions and negotiations with such asset, the brazilian SEC is working in a prudential way, considering that a public offer will probably not be registered.

With respect to the agribusiness securities, one of the analysis made is that they have great growth potential, in particular with the possibility of binding credit rights of the sector to LCA - Agribusiness Credit Bill, of issuance by financial institutions, which, in face of the tax benefit – exemption of the Income Tax for individuals –, it is showing an important funding instrument for banks. Furthermore, the bank evaluates the credit and faces the risk of the borrower while investor purchases the risk of the bank based on the agribusiness risk. In such structure, it is possible to attract investors wishing to diversify its portfolio, but that have no capacity to evaluate the risk of the underlying assets. The numbers related to the outstanding LCA already exceed the other most traditional funding instruments in the market, with a growth of more than 200% between the end of 2007 and August of this year.

Still with respect to such securities, it was presented a second view, more critical with respect to the insertion of the financial institutions as agents



promoting the funding of the sector, once the issuance of the LCA would be limited to the risk appetite of the balance sheet. Another agribusiness product, the CRA - Agribusiness Receivables Certificate, it was pointed out as a hope to the effective securitization of the agribusiness credits, which would enable the funding of the sector as there will be direct access to the investors.

Finally, an important conclusion of the first panel was the need of a greater standardization of the new funding instruments related to the agribusiness, despite of the differences of the funded products, under the argument that such standardization would facilitate the process of price formation and would increase the potential of negotiability of such assets. It was also pointed out the importance of a greater offer to the investor of services directed to the follow-up and monetisation of such assets. The follow-up service of the performance of the production and/or creation is already being offered by monitoring companies, while the monetisation, understood as making feasible the transformation in cash of the product related to agribusiness securities, that could be offered by a trustee, still does not exist in the market.

Funding term must be extended to follow the financing term

The second panel of the seminar approached the bank's funding instruments and the extension of terms of the liabilities of the institutions. It was debated the adequacy of the available instruments to the current moment of the Brazilian economy. The starting point was the verification that the separations between the assets and liabilities of the financial institutions, in particular in a time when the terms of the credit operations are increasing and the liquidity in the international financial market, a traditional source for long term funding, is decreasing, which is demanding an additional effort by the institutions in administrating of the funding extension problems.

As pointed out by the lecturers, the separation of assets and liabilities are inherent to the bank activity, and the agents have been using alternative instruments to the classic CDB – Bank Deposit Certificates, such as the FIDC – Investment Funds in Credit Rights, Cession of Credits, CCB – Bank Credit Note, including others, in order to help them in the equalization of the risks associated to the mismatches in the balance sheet, despite of the growth of the CDB being intensified in the last months, however, according to the participants of the event, at restricted terms.



In such sense, the difficulty of the CDB in performing its role as a long term funding instrument gave rise to queries whether it would be the most adequate vehicle to the extension of the funding of the financial institutions or if it would be required new instruments to suppress such need. According to the majority of participants, the problem would not be associated exclusively to the lack of a proper instrument, but to a strong culture of short term investments, which has the DI rate as its main index, and to an offer of premiums that still would not compensate investor for giving away the liquidity of his investments.

However, other aspects of the CDB market were identified as unfavorable to the use of such security to the extension of funding, amongst which the absence of market price or quotation on the negotiation screen, as well as a relevant secondary market to such asset ensuring liquidity to the investors, as an alternative to the possibility of redemption with the issuer.

Furthermore, the fact that good part of the industry of investment funds assures daily liquidity to its quotaholders ensure to the investor a short term investment reference, what induces the banks to issue CDB with a daily repurchase clause, regardless of the maturity. In such conditions, it is given up the advancements existent in the regulation treating the CDB offering that could facilitate its use to extend the liabilities of the banks, such as the issuance of the note with more than one remuneration base, already set forth in the regulation in force.

On the side of the investors, it is important pointing out that the pension funds, important potential source of demand to the long term assets given the profile of its liabilities, keep in its portfolios strongly concentrated in public securities and in fixed income investment funds (which concentrate its investments in public bonds), still being restrict the position in bank long term funding securities, according to the last data disclosed by Abrapp to the closed entities of complementary pension.

Anyway, with the purpose of extending the funding term of the institutions, it was proposed a change in the legislation in the sense of enabling the issuance of debentures by financial institutions, that would bring more disclaimer than the bilateral instruments such as the CDB. Such option would enable the bank funding in bigger lots with standardized papers and easy pricing and with a secondary market more developed. In order to release the extension of the bank fundings it was suggested the evaluation of the possibility of creating a regressive table on compulsory deposits in function of the maturity for papers issued without daily



liquidity guarantee, what would enable issuances at effectively higher rates, what could stimulate investor to give up liquidity for a higher profitability to his portfolio.

Finally, with the current turbulence in the international financial market, affecting indistinctively the credit and liquidity worldwide, the challenges to be overcome must require even more adjustments on the part of the local financial institutions to the new reality of decrease of available resources. In this sense, some of the opinions and proposals discussed at the seminar meet the market needs for new ways to minimize the unbalance between assets and liabilities of the sector.



Interview – Carlos Ratto

The challenge of extending terms

IN A INTERVIEW TO SINOPSE ANDIMA, THE PRESIDENT OF THE NEW PRODUCTS COMMITTEE OF THE ASSOCIATION, CARLOS RATTO, COORDINATOR OF ONE OF THE PANELS OF THE SEMINAR FUNDING PRODUCTS AND PRIVATE SECURITIES, ANALYSES THE PERSPECTIVES OF EXPANSION OF THE NEW FUNDING INSTRUMENTS AND DEFENDS THE EXTENSION OF TERMS OF THE FUNDING REQUIRED TO THE BALANCE OF ASSETS AND LIABILITIES OF THE FINANCIAL INSTITUTIONS: “IT IS NECESSARY TO DISCOURAGE THE INVESTORS OF KEEPING ITS RESOURCES INVESTED IN DAILY LIQUIDITY INSTRUMENTS”.

At the time of the seminar, ANDIMA and Cetip launched a study on CPR which provides continuity to the efforts of dissemination of information on new products in the fixed income market, beginning with the publication on FIDC. In your opinion, would there be space to a greater insertion of the private financial institutions as promoters of the rural production? Which would be the role of the new agribusiness securities as a financing alternative to the agropecuary sector?

The financial institutions already represent an important role in the financing of the agropecuary sector, by means of the use of the resources funded in deposits to the grant of credit to this segment. A next and important step is to make it feasible the disintermediation of the financial sector, so that the companies and producers may obtain resources from investors interested in such sector. The agribusiness securities represent an important role and are helping to make it feasible a few operations of such kind.

However, as we seen in the seminar, there still a few barriers to be overcome. The agribusiness securities compete with other investment alternatives existent in the market. Therefore, in addition to the matter of a profitability adequate to the risk, it is important the existence of fast and efficient mechanisms to provide security to the investor, as in other kinds of investment, or the relation between risk and return will not attract the investor. Trustee, that currently nearly has no market, would be one of such mechanisms. It is required to be an independent company, specialized and defending the interests of the investors.



CCBs increased the possibilities of negotiation of credits by the banks, at the same time that the available resources increased to companies that must not recur to the capital market. In this sense, how you evaluate the editing, by the Ethics Committee of ANDIMA, of the Orientation Opinion nº 11, which discusses the private operations carried out with such assets, and the regulation proposed by CVM of public offerings distributed with restrict efforts, including of CCB?

The Orientation Opinion is very important to clarify something that the market already knows, but somehow was forgotten: CCB is a credit title issued on behalf of banks and regulated by the Central Bank. As all credit instruments, it can be negotiated and the negotiation can be carried out in a private manner.

Another important point of this Opinion, but that also reinforces something that already exists in the current regulations, is the need of the bank being diligent in the grant of credit. As the CCB is a credit operation granted by the bank, such bank is subject to all rules and regulations related to the grant of credit, even if it negotiates the security subsequently.

The concern of the CVM is with the small investor that would eventually purchase such security, what is perfectly legal and extremely important to the financial market. However, this must not be a reason for subjecting a credit instrument to the same distribution rules of the securities regulated by CVM, even if there are more simplified manners to do so. We would, in practice, equal two different market instruments, that were created and are regulated in different manners.

A regulation of CVM would be important, but should it be directed only to the situations in which effectively there is public distribution, what, in fact, never occurred with CCB. The other negotiations should be out of the scope of the CVM, since, as rested clear in the work made by ANDIMA, they are only private negotiations of credit instruments.

In this sense, it would be important the complete distinction of the instrument, with the creation of a security that could be issued by any kind of company, not necessarily a business corporation, and with simpler issuance rules, pursuant to the type and target of the distribution. It would meet a demand of the companies, without, however, confusing with the characteristics and specificities of the credit instruments.



It was also discussed in the seminar whether the funding instruments available to the market would be sufficient to the task of extending the term of funding required to balance the assets and liabilities of the financial institutions. How do you evaluate the matter of extension of liabilities of the financial institutions?

Clearly, the extension of terms is an important theme. The financings are even longer, whether to individuals or legal entities, and the extension of the term of the funding is even more essential. The matter is: how to stimulate such process. There is a cultural matter of demanding daily liquidity, even if not used. As the premium that the investor pays to have daily liquidity is low, he will hardly migrate to a longer term investment without liquidity.

I believe that the discussions must be less focused on which instrument to use, and more on the matter of stimulating the investor to keep his resources invested for a longer term - or, on the other side, to discourage him of keeping his resources invested in instruments with daily liquidity.

This is a broad discussion that must involve several market agents, including banks, regulators, such as the CVM, Central Bank and Revenue Service, and even asset managers. The latter are important investors, and the major part of the funds they manage have quotas published daily with redemption in D+0, therefore they need immediate liquidity in good part of its investments, what reinforces the demand by the daily liquidity in the entire system.