



Non-Resident Investors Guide

Updated on May 2014
Regulatory Studies Area

► Summary

▶ **How to Invest in the Brazilian Financial Market**

According to legislation, non-resident investors, whether individuals or legal entities, may invest their funds in the same financial and capital market instruments and operational modalities available to resident investors. The operating mechanism is the same¹ irrespective of the market sector where the funds are invested. Investors must hire a representative in Brazil and complete the form attached to Resolution 2,689.

Investors must also name their tax representative, who is usually the same representative required by the above-mentioned Resolution 2,689, and hire securities custody services. Financial transactions abroad may be carried out only by acquiring foreign exchange². Investors are also subject to a series of other requirements such as registration with the Brazilian Central Bank and the Federal Revenue Service, opening an account, completion of the registration form, etc., as detailed in the following tables.

In recent years, several operational measures have been implemented to make operational foreign investment flow simpler and speedier. In this regard, almost all registration, except in the Individual Taxpayer Registry (CPF), can now be made electronically and is usually centralized in one (or more) financial institution(s) that provide diverse services (such as legal and tax representatives, custodians and settlement banks for exchange contracts). There are also additional facilities for investors operating as participants in collective accounts (“passengers”) to be included in representative and custody contracts signed by the respective account holders. Furthermore, there is a single RDE (Electronic Declaratory Registry) for all the transactions in the collective accounts.

The following tables summarize the operational aspects involved in such operations.

Table 2.1

Representatives in the country	
Nomination	Before beginning operations, non-resident investors must nominate one or more representatives in the Country*.
Conditions	If an Individual, must be a person resident and domiciled in Brazil. If a Corporation, must be legally established, organized and able to operate within the Country. In the case of a non-financial Individual or Corporation, the investor must in addition nominate a financial or other institution duly authorized by the Brazilian Central Bank, which will be co-responsible for the fulfillment of the obligations provided by the applicable regulations.
Attributions/Obligations	- To safeguard and present to the BC (Brazilian Central Bank) and CVM (Brazilian SEC), whenever requested, the identification form and representation agreements signed with the investor, as well as bonds and securities custody agreements; - To make, file and keep updated with CVM and BC all the required registrations (see Table II.2); - To provide BC and CVM with any information requested; - To certify the investor’s signature contained in the identification form; - To promptly communicate to BC and CVM the cancellation of the representation agreement, as well as the occurrence of any abnormalities that may come to its knowledge; - To pay CVM the due quarterly inspection fee.
Relevant Provisions	- For a collective account, the participating investor may adhere to the agreement executed between the account holder and his representative, by signing the Term of Adhesion; - The representative’s failure to comply with his obligations will lead to disqualification from performance of the functions, and the investor will have to designate a substitute.

* It is not necessarily the same representative as required by the fiscal legislation (see chapter IV), however, in practice, it tends to be the same.

1 . There are two investment types not covered by Resolution 2,689 and which have specific regulation: Depositary Receipts (Resolution 1,927) and forward, futures and options contracts for agribusiness products, traded on the Brazilian Commodity and Futures Exchange (BM&FBovespa - Resolution 2,687) – see tables III.7 “a” and “b”.

2 . In the case of foreign funds invested exclusively in Brazilian stock markets, foreign exchange may be acquired by the Central Securities Depository (CBLC), and this company must be indicated as the beneficiary or sender in the respective payment instrument. In the case of agribusiness derivatives operations (mentioned in the note above), BM&FBovespa is responsible for acquiring foreign exchange relating to the operations of its clients.

Table 2.2

Compulsory registries

<p>Brazilian Securities Commission (CVM)</p>	<ul style="list-style-type: none"> • Before beginning operations and after filling in the identification form, the investor must, through his representative, register at the Brazilian SEC (CVM); • Registration is carried out through the CVM website (www.cvm.gov.br); • CVM provides the registration within 24 hours of the representative's request; • The registration number (code) assigned by CVM must be included in all operations performed in the name of each investor participating in a collective account or holder of an individual account; • Code structure (aaaaa.bbbbbb.cccccc.X-Y): aaaaa-representative code, bbbbbb-holder of individual or collective account, cccccc-individual investor code, X-equal to 0, if own individual and equal to 1 if collective account, Y-verification digit; • CVM may suspend or cancel the registration of a non-resident investor who does not comply with the requirements established by the regulation.
<p>RDE – Electronic Declaratory Registry</p>	<ul style="list-style-type: none"> • Resources entering the Country must be registered at the Central Bank in statement form and through electronic means (RDE – Electronic Declaratory Registry); • The initial RDE and its updates (investments, redemptions, revenues, capital gains, transfers) are compulsory requirements for any resource movement abroad, and the respective number must be stated on the exchange rate contract (in the proper field); • Registrations are performed by specific Sisbacen transactions – Central Bank Information System; • In case of non-compliance with regulations, the Central Bank shall suspend the registration and any movement will be prohibited until all irregularities are corrected.
<p>CNPJ¹/CPF² at RFB</p>	<ul style="list-style-type: none"> • Non-resident investors are obliged to be registered at CPF or CNPJ in order to be able to invest in financial and capital markets in the country; • The CNPJ is automatically obtained by CVM at RFB (Brazilian IRS), within 24 hours (usually) of the investor registering at CVM; • To be registered at CPF the investor must contact a RFB (Brazilian IRS) unit or the Brazilian diplomatic representative in the country concerned.

1 - CNPJ - Corporate Tax Registration. Managed by the Brazilian Inland Revenue Service, registers legal entities information.

2 - CPF - Brazilian Individual Taxpayer Registry. Identifies individual taxpayers at the Brazilian Inland Revenue Service.

Table 2.3

Investor qualification and condition		
Qualification and CVM Code	a) Commercial banks, investment banks, savings and loan association, global custodians and similar institutions, regulated and supervised by government authorities.	101
	b) Insurance companies regulated and supervised by government authorities.	102
	c) Companies or entities for distribution of securities, or which act as brokers in securities trading, on their own behalf or for third parties, registered and regulated by entities certified by CVM.	103
	d) Pension funds, regulated by government authorities.	104
	e) Non-profit organizations, if regulated by government authorities.	105
	f) Any entity having as its objective fund investment in financial and capital markets, where the participants are exclusively individuals and legal entities resident and domiciled abroad, duly registered and regulated by entities certified by CVM.	106
	g) Any entity having as its objective fund investment in financial and capital markets, where the participants are exclusively individuals and legal entities resident and domiciled abroad, and the portfolio is administered, discretionarily, by a professional administrator, registered and regulated by entities certified by CVM.	107
	h) Other collective investment funds or entities.	108
	i) Legal entities constituted abroad.	109
	j) Individuals residing abroad.	110
Account types	- Individual account holder – may operate only in his own name;	
	- Collective account holder – may operate in his own name and on behalf of other non-resident (“passengers”) investors. Must be qualified for items “a” to ‘h” above;	
	- Collective account Participant – client of the collective account holder.	
Other Conditions	<p>- To be qualified for items “c”, “f” and “g”, CVM certifies entities meeting at least one of the following requirements:</p> <p>I – they have signed the CVM Memorandum on Cooperation and Understanding;</p> <p>II – they adhere to IOSCO – International Organization of Securities Commissions Resolution on Cooperation and Mutual Assistance - or have signed the above-mentioned Declaration IOSCO Resolution on Commitment to Basic IOSCO Principles of High Regulatory Standards and Mutual Cooperation and Assistance;</p> <p>III – they are subordinated to the regulatory body of their country of origin, or committed to exchanging information with this body, if it follows one of the criteria set forth in previous clauses, and has power to send CVM information regarding the investor applying for registration, or</p> <p>IV – they are IOSCO members and undertake to exchange information with CVM directly on the investor applying for registration, under the terms of the declaration of clause II here above.</p>	

Table 2.4

Information to be submitted and other obligations	
Information	<ul style="list-style-type: none"> - To the Brazilian Central Bank: on a monthly basis, up to the fifth working day of the following month, custody services provider institutions must inform, on a separate and individualized basis by investor, on custody positions held (application software available at the BC web site); - To the CVM: the representative shall submit, on a monthly basis, up to the fifth working day of the following month, non-resident investors information (aggregated data), by means of the document "Informe de Investidores Não Residentes por Titular" (Information on Non-resident Investors, by holder), and, on a half-yearly basis, up to the 15th day of the month immediately following the end of the semester (individual and detailed data), by means of the document "Informe de Investidores Não Residentes por Passageiro" (Information on Non-resident Investors, by Passenger) (files available at the CVM web site).
Custody Agreement	<ul style="list-style-type: none"> - An investor intending to operate as account holder must sign or execute, either directly or through his representative, a bond and securities custody providing services agreement with an institution duly authorized by the CVM. Collective accounts participants can adhere to the agreement of said account holder, as long as all the custody operations and registrations are segregated by participant; - The investor may be a holder and participate in more than one account. If he chooses to keep his bonds and securities in separate custody accounts or in more than one custody institution, the custody agreement must contain a clause informing about operational proceedings for movements between accounts and the corresponding information flow; - When the investor operates through a foreign institution, the custody agreement may be signed by the foreign institution, on behalf of the investor, provided that the custodian institution ensures that the investor is duly registered and filed at the foreign institution (see the item "registration").
Transfers	<ul style="list-style-type: none"> - Provided that the non-resident investor has the same individual code (see CVM Code structure in schedule II.2), funds transfers between different accounts can be made. For this purpose, the investor's representative must previously inform CVM of both source and destination accounts, the date, the amount and the assets transferred; - Transfers of custody position between non-resident investors performed abroad, resulting from merger, take-over, de-merger and any other changes in equity holding positions, as well as those resulting from 'mortis causa' succession, depend upon prior authorization by CVM, and the legal representative is required to submit to the Commission a copy of the documentation that supports said event.
Remittances Outside the Country	<p>In the case of currency remittances outside the country on the basis of incomes, earnings and capital gains, the bank involved is responsible for checking the documents to be presented by the custodian institution or the investor's representative, which shall clearly demonstrate the earnings distribution, ownership and sale of the assets that had generated those earnings or that were sold, and the payment of all the taxes due.</p>
Registration with a Local Brokerage House	<ul style="list-style-type: none"> - As local brokerage house customers, non-resident investors must fill in an enrollment form with these institutions, which will then become responsible for keeping it updated. That enrollment must contain at least the information required by the norms and rules covering the fight against money laundering crimes. It shall, in addition, contain the names of the persons authorized to issue orders, as well as the legal representative or entity responsible for the custody of bonds and securities. - As an alternative to "full" enrollment, brokerage houses may perform the enrollment in a "simplified" way, as per the norms and rules established by stock exchanges and organized over-the-counter market managing entities, provided the requirements concerning recognition of the relationship with global custody entities which exercise the custody activity of bonds and securities for non-resident investors are fully complied with. Therefore, the execution of an agreement between the local brokerage houses and the foreign brokers becomes compulsory.

▶ Available Investment Types

As previously mentioned, non-resident investors may invest their funds in all the types of investments available in Brazilian financial and capital markets. This chapter describes the features and definitions of the main securities, assets and other financial instruments, their trading and settlement methods, and the specific regulations to non-resident investors.

3.1 - General Investment Rules

Table 3.1

General investment rules	
Registration	<ul style="list-style-type: none"> - Financial assets, securities and other modalities of financial operations must, according to their type: <ul style="list-style-type: none"> a) be registered, custodied or kept in a deposit account of an institution or entity authorized by the Central Bank (BC) or by CVM; or b) be registered, in register, settlement and custody systems certified by the BC or authorized by CVM. - Derivatives markets trades, can only be performed or registered in entities governing organized stock exchange or OTC markets authorized by CVM, or registered in trade reporting, settlement and depository systems certified by the BC or authorized by CVM.
Bans/ Exceptions	<ul style="list-style-type: none"> - It is not permitted to perform operations resulting from acquisition or disposal: <ul style="list-style-type: none"> a) out of Stock Exchange sessions, of electronic systems, or organized OTC markets governed by entities authorized by CVM, of open companies securities registered for trading in these markets; b) of securities traded in nonorganized securities markets or organized by entities not authorized by CVM. - The above prohibition does not apply to the cases of subscription, discount, conversion of debentures into stock, securities referenced indexes, acquisition and disposal of open investment funds quotas and, if previously authorized by CVM, delisting of shares cases, cancellation or suspension of negotiations, judicial transaction and negotiation of stock linked to shareholders agreements. - It is prohibited to make transfers or legal entitlement cessions abroad of investments or bonds or securities, except in cases of transfer resulting from merger, incorporation, corporate break-up and other company changes performed abroad, as well as cases of succession by inheritance, in compliance with the regulatory requirements.

3.2 - Federal Government Bonds

Table 3.2.1

General features	
Primary Market	<p>Public auctions</p> <ul style="list-style-type: none"> - Conducted by the National Treasury according to a monthly schedule available at www.tesouro.fazenda.gov.br¹ - The characteristics of each offer are announced through an Ordinance of the National Treasury Secretariat (STN). - Proposals must be submitted through banks, branch offices of the Caixa Econômica Federal bank, brokers and distributors, credit, financing and investment companies, and real estate credit companies. - After scrutiny by the system, the results are announced to the participants and made available at www.tesouro.fazenda.gov.br/divida_publica/leiloes.asp and www.bcb.gov.br/?selicedital² <p>The “Tesouro Direto” Program - An internet based retail sales program</p> <ul style="list-style-type: none"> - Public offerings, without auctions (www.tesouro.fazenda.gov.br/tesouro_direto). - Securities are repurchased by the National Treasury on a weekly basis.
Secondary Market	<p>Definitive - Purchase/sale operation.</p> <p>Repos - Purchase/sale of securities with resale/repurchase agreement, with or without future settlement price and freely tradable or otherwise (see table 3.4).</p> <p>Forward transactions - Forward contracts for definitive purchase and sale at a fixed price:</p> <ol style="list-style-type: none"> with securities already issued and outstanding. The settlement date must be earlier than the maturity date of the securities; for securities of a public offer already announced but not yet settled (“forward auction”).
Brazilian Central Bank operations	<p>Informal auctions - Definitive or repo operations conducted by the Brazilian Central Bank with the securities in its portfolio and restricted to open market dealers. There is no set timeline; operations are announced a day before they are held, through a Central Bank communication. The objective of these operations is to fine-tune liquidity and help in pricing on a daily basis.</p> <p>Central Bank Loans - Two back-to-back overnight repo operations: in the first, the Central Bank sells a dealer the security it wants, based on a repurchase agreement. Simultaneously, another public security is purchased from the same institution, also with the resale agreement. The objective is to offer securities in the Central Bank’s portfolio to institutions that take strategic positions in the spot market, which are guaranteed by other National Treasury securities.</p> <p>Intraday Rediscount - An intraday repo operation between the Central Bank and the institution holding the Banking Reserve account (the settlement account with the Central Bank). The objective is to guarantee temporary liquidity for settlement of operations in the payments system.</p>
Trading	<ul style="list-style-type: none"> - In the OTC market, with registration and settlement performed at the Special System for Settlement and Custody (SELIC). - In the electronic trading system: CetipNet (registration and settlement in the SELIC) or Sisbex (registration and settlement in the BM&FBovespa clearing system).
SELIC	<ul style="list-style-type: none"> - A central depository for domestic federal government bonds. - Real time gross settlement (RTGS) of federal government securities trading, including those relating to auctions, Central Bank loans and rediscounts. - It has three complementary modules: Ofpub, to process public offerings, Ofdealers, for informal auctions directed to those institutions authorized to deal with National Treasury, and Lastro, to help in the specification (codes, due dates and quantities) of the securities that are part of repo operations. - Securities held by non-residents are registered in the specific sub-account, in accordance with the Brazilian Central Bank’s rules defining custody accounts of customers (Circular-Letter No. 3,278/07).

Notes: 1. English version: <http://www.tesouro.fazenda.gov.br/english/index.asp>. 2. English version: <http://www.bcb.gov.br/?english>.

Table 3.2.2

Government bonds - by type ¹					
Type	Indexing Factor	Interest	Terms ²	Maturity Rule ²	Number of Days
LFT	Linked to the overnight SELIC rate	None	26 months ⁴ (average term)	Third month of each quarter	Business days of the security/252
LTN	Fixed	None	6 months 12 months 24 months 36 months	First day of January, April, July and October	Business days of the security/252
NTN-F	Fixed	Half-yearly, with adjustment of the term in the first flowing period, when applicable	5 years 10 years	First day of January	Business days of the security/252
NTN-B	Consumer Price Index (IPCA)	Half-yearly, with adjustment of the term in the first flowing period, when applicable	3 years 5 years 10 years 20 years 30 years 40 years	Securities maturing in odd years ³ : payment of principal in May and interest in May and November. Securities maturing in even years: payment of principal in August and interest in February and August.	Business days of the security/252
NTN-C	Wholesale Price Index (IGP-M)	Half-yearly, with adjustment of the term in the first flowing period, when applicable	Financing strategy for 2012 does not envisage its issue. It is not issued since 2007.	-	Business days of the security/252

Key: LFT - Zero Coupon Floating Rate Bill (Letras Financeiras do Tesouro), LTN - Zero Coupon Fixed Rate Bill (Letras do Tesouro Nacional), NTN - National Treasury Note (B, C and F series).

Notes: 1. Object of public offer. 2. Defined by the PAF- Plano Anual de Financiamento 2012 (Annual Financing Plan - 2012), and may be amended according to the National Treasury strategy. 3. NTN-B with shorter terms may have the principal mature in November (exception to the general rule). 4. Average term in July 2012. Term must be longer than the government public debt average term.

3.3 - Securities Issued by Companies

Table 3.3.1

Debentures	
Definition	Securities representing medium and long term debt that guarantee their owners (debenture holders) right of credit against the issuing company.
Issuers	Public or private company (Sociedade Anônima - SA).
Debenture Indenture	The document that describes the conditions under which the debenture will be issued.
Types of offering	<ul style="list-style-type: none"> - Public: targeted at the general public, by a company listed with the Brazilian Securities Commission (CVM); - Public, with restricted efforts: targeted at a limited number of qualified investors by open or closed companies, with specific trading lock-up period but dismissing CVM listing requirements. - Private: aimed at a restricted group of investors. The company does not have to be listed with the CVM.
Term	It must be defined in the indenture, but the company may issue debentures without maturity (perpetual debentures).
Form	<ul style="list-style-type: none"> - Nominative: registration and control of transfers are made by the issuing company in the Register of Nominative Debentures; - Book-entry: custody and book keeping services are provided by the financial institution authorized by the CVM.
Types (in terms of guarantees)	<ul style="list-style-type: none"> - With real guarantee: guaranteed by the assets of the issuing company or of third parties (mortgage, pledge or antichresis - possession and enjoyment of mortgaged property by mortgagee in lieu of interest payments); - With floating guarantee: ensures general rights over the assets of the issuer, but does not hinder the sale of assets; - unsecured or non-preferential: does not offer any rights against the assets of the company; - Subordinate: offers preference only over shareholder dues.
Remuneration	<p>I - interest (fixed or floating rates):</p> <ul style="list-style-type: none"> a) fixed rate (without minimum term); b) the following rates, increased or decreased by a fixed percentage: <ul style="list-style-type: none"> - Reference Rate (TR) or Long-term Interest Rate (TJLP), with a minimum period of 1 month for maturity or repricing; - Basic Financial Rate (TBF), with a minimum period of 2 months for maturity or repricing; - Floating rate, which is usually the short term interfinance rate - DI (without minimum term). c) based on the coefficients of monetary adjustments on government bonds, foreign exchange variation or the price index (1 year), increased or decreased by a fixed percentage. <p>II - reimbursement premium</p> <p style="padding-left: 20px;">Based on the variation in the revenues or profits of the issuing company.</p> <p>III - share of company's profits</p>
Other conditions	<ul style="list-style-type: none"> - Convertibility: convertible debentures may be transformed into shares of the issuing company as defined in the indenture; - Exchangeability: the debenture indenture may contain clauses that establish the exchange of debentures for other assets or shares issued by third parties; - Repricing: the debenture indenture may include this mechanism, allowing for the debenture's conditions to be adapted to those of the market.
Trustee	Legal representative of the common interests of debenture holders, protecting their rights vis-à-vis the issuer. Compulsory in public issues.
Information for investors	In public issues, production of an issue prospectus is mandatory. This document consolidates all the relevant information about the issuer and the general conditions of issue.
Trading	<p>Mainly OTC market, by telephone or through electronic system of Cetip.</p> <p>Also traded on the stock exchange (BovespaFix), with registration and settlement done by BM&FBovespa. See table 3.8.</p>

Table 3.3.2

Time deposit	
Definition	A nominal promise of payment of the original deposited amount plus an agreed remuneration.
Types of deposits	- CDB – Certificate of Deposit, must be nominative and endorsable; - RDB - Receipt of Deposit, nominative and not tradable.
Issuers	- Multiple Banks (with commercial portfolio, of investment and/or development); - Commercial Banks; - Investment Banks; - Development Banks; and - Savings institutions.
Remuneration	- Rates and terms: a) Nominal (fixed rate, no minimum specific term); b) Floating (no minimum term); c) TR and TJLP, minimum 1-month term for maturity or refinancing; d) TBF, minimum 2-month term for maturity or refinancing; e) Price Indexes, minimum maturity: 1 year. - More than one remuneration basis is permitted, if the one offering better remuneration to the depositor prevails. - Regular income payment is permitted.
Prohibitions	- CDB/RDB issue for financial institutions, including credit cooperatives. - Issue of CDB/RDB is permitted for securities dealerships, securities brokers and independent agents.
Early Redemption	- For RDB, the issuing institution must give its agreement, and it is not permitted to bail any remuneration after the contract date, but it is permitted to deduct it from the principal and refund any installments eventually paid to that securities. - For CDB, maturity has to be respected, according to the securities remuneration.
Registration/ Trading	Must be registered at CETIP or other custody and settlement system authorized by the Central Bank, up to three working days after booking the operation.
Exceptions	- Credit, financing and investment institutions and credit cooperatives may raise funds through RDB issues, only from their associates. - Micro-entrepreneur Cooperatives may apply funds in CDB and RDB.

Table 3.3.3

LF - Banking Financial Note	
Definition	Promise to pay in cash, nominative, transferable and freely tradable.
Issuers	Financial institutions.
Remuneration	- Fixed rate, combined or not with floating rate or price indexes; - It is allowed coupon payment in, at least, 180 days intervals; - Price level adjustment is allowed in period intervals equal to coupon payments, even if it is less than one year.
Conditions	Minimum unitary value of: - R\$ 300.000,00, if it has a subordination clause; - R\$ 150.000 if it doesn't have a subordination clause.
Early Redemption	- The Banking Financial Note will have a due date of, at least, 24 months. - Partial or total redemption is prohibited before the due date.
Repurchase	- Banking Financial Notes that doesn't have a subordination clause can be acquired by the issuing institutions, at any time, be it to be kept by the financial institution's treasury or to be sold later. - Banking Financial Notes with a due date of more than 48 months and that is not remunerated by DI Rate can be issued with a "repurchase option" clause.
Registration/ Trading	Must be registered at CETIP or other custody and settlement system authorized by the Central Bank, up to three working days after having booked the operation.

Table 3.3.4

Time deposit with special guarantee	
Definition	A nominal promise of payment of the original deposited amount plus an agreed remuneration.
Issuers	<ul style="list-style-type: none"> - Multiple Banks (with commercial portfolio, of investment and/or development); - Commercial Banks; - Investment Banks; - Development Banks; and - Savings institutions.
Remuneration	<ul style="list-style-type: none"> - Rates and terms: <ul style="list-style-type: none"> a) Nominal (fixed rate, no minimum specific term); b) Floating (no minimum term); c) TR and TJLP, minimum 1-month term for maturity or refinancing; d) TBF, minimum 2-month term for maturity or refinancing; e) Price Indexes, minimum maturity: 1 year. - More than one remuneration basis is permitted, if the one offering better remuneration to the depositor prevails. - Regular income payment is permitted.
Conditions	<ul style="list-style-type: none"> - The Time Deposit with Special Guarantee (DPGE) will have a due date of, at least, 12 months, and, at most, 36 months. - Renegotiation of the remuneration originally established is prohibited. - Partial or total redemption is prohibited before the due date. - The DPGE are secured up to R\$ 20 million (by person).
Registration/ Trading	Must be registered at CETIP or other custody and settlement system authorized by the Central Bank.

Table 3.3.5

Other fixed income securities			
Types	Basic Definition	Terms of Remuneration	Registration/ Trading
Fundraising by Financial Institutions and Other Institutions Authorized by the Brazilian Central Bank (BC)			
LC - Bill of Exchange	Linked to the financing of goods and services for individuals or legal entities and for working capital of legal entities. Acceptors: credit, financing and investment companies, and multiple service banks with credit, financing and investment portfolio.	Fixed rate, floating (DI, SELIC) TR, TJLP, TBF, price index.	CETIP
LH - Mortgage Note	Can only be issued by institutions that grant loans using resources from the SFH, it is guaranteed by mortgage credits as collateral, and may rely on additional fidejussory guarantee from the financial institution.	TR, IGP-DI, IGP-M, INPC	CETIP
Certificates and Notes representing Credit Operations			
CCB - Banking Credit Note	Promise to pay in cash, arising from a bank credit operation. Issued by a company or an individual, with a bank as a counterpart.	Fixed/ floating rate (DI, SELIC) TR, TJLP, TBF, price index and exchange variation.	CETIP
CCCB - Banking Credit Note Certificate	Certificate representing the CCBs held by financial institution, may represent notes of different values, periods and terms of remuneration. Issued by the depositary institution for the banking credit notes.	There is no specific remuneration.	CETIP
Commercial Credit Notes	These represent loans given by financial institutions for business activity or provision of services. Issued by individuals or legal entities dedicated to industrial activity.	Fixed rate, floating (DI, SELIC) TR, TJLP, TBF, price index.	CETIP
Certificates and Notes representing Real Estate Credit Operations			
CCI - Real Estate Credit Certificate	Issued by the real estate creditor and may be whole, when it represents the entire loan amount, or a part, if it represents a portion of it, in which case the sum of the CCI parts cannot exceed the total loan amount they represent.	Minimum period of 36 months. A clause may be stipulated for monthly adjustments based on industry or general price indexes or the basic savings yield index.	CETIP
CRI - Real Estate Receivables Certificate	Issued by companies securitizing real estate credits and publicly-held companies, pegged to real estate receivables, which constitute a promise of payment in cash.	Fixed rate, floating (DI, SELIC) TR, TJLP, price index.	CETIP Bovespa Fix
LCI - Real Estate Credit Bill	Pegged to real estate loans guaranteed by mortgage or by the property's deed of trust. Issued by a commercial bank, multiple service bank with a real estate lending portfolio, Caixa Econômica Federal (the Federal Savings Bank), real estate credit companies, Savings and Loan Associations and mortgage companies.	Fixed rate, floating (DI, SELIC) TR, TJLP, TBF, price index.	CETIP
Notes, Certificates and Bills representing Agribusiness Operations			
CPR - Rural Product Note	Order instrument with physical (delivery of products) or financial settlement. Rural producers and their associations, including cooperatives, may issue CPRs.	Physical CPR – quantity of products. Financial CPR – fixed price or future price, based on the BM&FBovespa index or Esalq.	CETIP BM&FBovespa
LCA - Agribusiness Credit Bill	Credit instrument issued by a public or private financial institution, pegged to agribusiness credit rights.	Fixed or floating interest rates. Capitalization is allowed.	CETIP BM&FBovespa
CDCA - Certificate of Agribusiness Credit Rights	Issued by cooperatives of rural producers and other companies with agribusiness-related operations, pegged to agribusiness credit receivables.	Fixed or floating interest rates. Capitalization is allowed.	CETIP BM&FBovespa
CRA - Certificate of Agribusiness Liabilities	Issued by companies securitizing agribusiness credit receivables.	Interest rates are included in the discount value of the security in secondary market trades.	CETIP
CDAWA - Certificate of Agricultural Deposit/ Agricultural Warrant	Unified credit instruments, issued simultaneously by warehouses through a bailment contract and extrajudicial execution. CDA represents promise of delivery of products and WA gives the right of pledge on the referred products.	Interest rates are included in the discount value of the security in secondary market trades.	CETIP BM&FBovespa
Others			
CTEE - Forward Certificate of Electrical Energy	Security issued by a publicly-held electric energy company for public offering. Funds are meant exclusively for investments in specific projects, for works considered by the National Water and Electric Energy Department as being delayed.	May have guarantees, may be divided into series, may envisage monetary restatement and premium, provided it is laid out in the issue document.	CETIP
Export Credit Bills	- CCE and NCE (Cédulas e Notas de Crédito à Exportação - Export Credit Bills and Notes): debt instruments linked to exports. - Export Note: credit right in foreign currency, generated in sales contract of merchandise and of services abroad. Issued by exporting companies.	Exchange variation in the operation period, added to or deducted from the interest rates contracted.	CETIP
Commercial Paper	Issued by publicly-held corporations, giving their holders credit rights against the issuer.	Fixed and floating rate (DI, SELIC) TR, TJLP.	CETIP Bovespa Fix
Remark: More information may be obtained from the websites of Cetip and BM&FBovespa – see the addresses in the attached Glossary and the websites for queries.			

3.4 - Repo Transactions

Table 3.4

Repo transactions	
Type of Transactions	<ul style="list-style-type: none"> - Sale with promise to buy back or buy with promise of resale: <ul style="list-style-type: none"> • Intraday, overnight or maturity greater than 1 day; • with or without freely tradable securities; • Matched (buyback to resale, allowing securities lending of bonds by the Central Bank). - Forward: <ul style="list-style-type: none"> • buy or sale operations; • overdraft or not; • Linked to cash buyback or resale.
Securities Allowed	<ul style="list-style-type: none"> - Securities issued by the National Treasury; - National Treasury securitized credits; - TDA – Agricultural Debt Securities, issued by the Incra (Brazilian National Institute of Colonization and Agrarian Reform); - CDB – Bank Deposit Certificates; - CCB – Banking Credit Notes, and CCCB - Banking Credit Notes Certificates; - LC – Bill of Exchange, and LH – Mortgage Bills; - LCI – Real Estate Credit Bills, and CCI – Real Estate Credit Certificates; - Debentures; - Commercial Papers; - CRI – Real Estate Receivables Certificate; - CPR – Rural Product Notes, with financial settlement; - CDCA – Certificate of Agribusiness Credit Rights, LCA – Agribusiness Credit Bill, CRA - Certificates of Agribusiness Liabilities; - CCE and NCE – Export Notes; - Other securities that may be authorized by the Brazilian Central Bank.
Main Features	<ul style="list-style-type: none"> - Maturity: must always be equal or inferior to redemption maturity of securities used in operations. - Yield: defined (fixed) rate of return or with established remuneration parameter (floating), it is prohibited to use currency realignment clause (except on securities based-currency adjustment forward operations). - Counterpart: one of the parts must be an authorized (by the BC) financial institution¹. - Restrictions: <ul style="list-style-type: none"> • Clients² may only sell and buy back securities that are not object of resale. • Without “free tradable” agreement, securities may only be sold through new repo operations without “free tradable” agreement and with buyback date equal or prior to the repo resale. • Non-resident investors buying government bonds with resale agreement do not have the right to tax exemption (see chapter IV – Taxation). - Trading: OTC market (with trade reporting to SELIC or Sisbex) or in Sisbex or CETIPNet trading electronic systems. - Registration and settlement: at SELIC (over the counter market and CETIPNet) or at BM&FBovespa Clearing (Sisbex-Negotiation or Sisbex - Registration).
Short-Selling	<ul style="list-style-type: none"> - Definitive sale, by the buyer, of the securities for resale. - Only authorized when: <ul style="list-style-type: none"> • A previous agreement between counterparties must exist (a “free tradable” agreement). • Settlement must take place in a central counterpart (BM&FBovespa clearing), except for: a) transactions with National Treasury bonds; and b) transactions in which both parties are financial institutions. - If these requirements are fulfilled, then clients² may trade. - It is necessary to include a clause to engage in short selling in this market.
Forward & Overdraft Operations	<ul style="list-style-type: none"> - Only between financial institutions. - Of National Treasury securities to go into auction, through previously announced offers and placing a minimum of 51% of the offered lot and with same settlement date.

Notes: 1. Financial Institutions or institutions authorized by the BC, including brokerage houses and securities firms. 2. Non-financial Individuals or legal entities, including investment funds.

3.5 - Investment Funds

Table 3.5.1

Types of Investment Funds (Regulated by Instruction No. 409 of the Brazilian Securities Commission (CVM) and later amendments)			
Classes	Portfolio Composition		Conditions ³
	Description	Limit ² (of PL)	
External Debt ¹	Financial assets traded abroad.	Unlimited	Derivatives abroad (10% of PL) or in Brazil (10% of PL), exclusively for hedging.
	Securities representing the external debt of the Federal government.	Min. 80%	
	Other credit securities traded in the international market.	Max. 20%	
Referenced ¹	Government bonds and fixed income bonds/securities with low credit risk	Min. 80%	Derivatives exclusively for the purpose of hedging the spot positions up to their limit.
	Financial assets that directly or indirectly accompany the variation in the benchmark	Min. 95%	
	Financial assets traded abroad	Max. 10%	
Stock	Stock, subscription warrants/receipts and share certificates, quotas of equity funds and stock indexes, and BDRs (Brazilian Depositary Receipts)	Min. 67%	Main risk factor must be the variation in the prices of stock traded in the spot market on stock exchanges or OTC market.
	Investment in any other kind of assets	Max. 33%	
	Financial assets traded abroad	Max. 10%	
Multimarket ¹	Financial assets traded abroad	Max. 20%	Investment policies that involve various risk factors, without the commitment to concentrate on any particular factor.
	Other investments	Min. 80%	
Fixed Income ¹	Assets related directly, or synthesized through derivatives, to the risk factor that gives the class its name.	Min. 80%	Main risk factor of the portfolio must be the variation in the domestic interest rates or price indexes, or both.
	Financial assets traded abroad	Max. 10%	
Foreign Exchange ¹	Assets related directly, or synthesized through derivatives, to the risk factor that gives the class its name.	Min. 80%	Main risk factor of the portfolio must be the variation in the foreign currency rates, or in the foreign exchange coupon.
	Financial assets traded abroad	Max. 10%	
Short Term	Government bonds or private securities (low credit risk), fixed or indexed to the SELIC rate or any other interest rate, or securities linked to price indexes, with a maximum period of 375 days, and the average portfolio term of less than 60 days.	100%	Derivatives exclusively hedging the portfolio and for repo operations backed by federal government bonds.
	Financial assets traded abroad	Max. 10%	
In Investment Fund Quotas	Quotas of investment funds of the same class	Min. 95%	Funds in quotas classified as Multi-market may invest in fund quotas belonging to different classes ⁴ .
	Demand deposits and/or government bonds, fixed income securities issued by the financial institutions and repo operations.	Max. 5%	

Notes: 1. May include in their title the expression "Long term" for the purpose of obtaining differentiated tax treatment as established in regulation (See Chapter 4 - Taxation). 2. Besides the composition limits applicable to the Net Worth (PL - Patrimônio Líquido), the limits per issuer and per financial asset type established by regulation must also be observed. 3. Registration of the investment fund shares may be made in the Cetip - OTC organized market. 4. Investments are prohibited in quotas of funds not envisaged in Instruction No. 409, except for "exclusive" investment funds and Multi-market investment funds created exclusively for qualified investors.

Notes:
- An investment fund may be created exclusively for qualified investors. Qualified investors are financial institutions, insurance companies and capitalization companies, pension funds, individuals and legal entities that have investment amounts greater than R\$ 300,000.00 and attest this in writing.
- An investment fund that requires minimum investment, by investor, of R\$ 1,000,000.00, does not need to observe the limits per issuer, per financial asset type and for the acquisition of financial assets abroad established by regulation.

Table 3.5.2

Other Investment Funds			
Classes	Portfolio Composition		Remarks ²
	Description	Limit ¹ (of PL)	
FII - Real Estate Investment Funds	Any real estate property rights. Any security registered or authorized by CVM issued by companies which main activities are related do FII. FIP or FIDC Quota which exclusively invest in real estate FII Quotas Cepacs, CRI, LH and LCI	100%	FII that invests more than 50% in securities might observe the limits per issuer and per financial asset type established by CVM Instruction n° 409,
FIDC	Receivables	Min. 50%	Limit of 20% of the PL for acquisition of credit receivables and other assets from the same debtor. Investments can be only in qualified investor funds, with the minimum subscription value being \$ 25,000.
	TPF, State and Municipal, CDB, RDB and other securities, bonds and fixed income assets. Repo operations and derivatives are optional, provided the objective is to hedge the spot positions up to their limits.	Max. 50%	
FIEE - Venture Capital Funds	Stock, debentures convertible into shares and/or subscription warrants issued by emerging companies (companies with an annual net profit of R\$ 150 million or less).	Min. 75%	The daily positions in securities of emerging companies may reach 50%, provided that the average is 75% every 180 days.
	Fixed income securities, stock, debentures convertible into shares and/or subscription warrants issued by non- emerging companies and shares of publicly-held companies.	Max. 25%	
FIP - Private Equity Funds	Stock, debentures, subscription warrants, or other securities and shares convertible or exchangeable into shares of publicly-held or private companies, participating in the decision making process of the investee company. Derivatives exclusively for hedging assets.	100%	Investments can only be made by qualified investors, with the minimum subscription value being R\$ 100,000.

Notes: 1. The limits established in the regulation relating to portfolio diversification must also be observed. 2. Quotas of investment funds may be registered at the Cetip. Alternatively, quotas of the FII and FIDC may be registered with the CBLC.

Notes: FII – Real Estate Investment Fund (Fundo de Investimento Imobiliário) / FIDC – Credit Receivables Investment Fund (Fundo de Investimento em Direitos Creditórios) / FIEE – Venture Capital Investment Fund (Fundo de Investimento em Empresas Emergentes) / Private Equity Investment Fund (Fundo de Investimento em Participações).

3.6 - Stock and Derivatives Markets

Table 3.6

Stock and Derivatives Markets			
Markets	Definition	Main Contracts ¹	Registration/Trading
Spot	Assets, bonds and securities trades with cash settlement.	- Stock - Commodities (gold, agribusiness).	- BM&FBovespa
Forward ²	Assets, bonds and securities trades settled in a certain term, usually 30, 60 or 90 days after the negotiation.	- US Dollar - Currencies - Gold	- BM&FBovespa - CETIP - BM&FBovespa
Futures ²	Buy and/or sell Commitment for settlement (delivery and/or financial) in future dates, with daily-value contract adjustment.	- Stock - One-day DI - Ibovespa - US Dollar / EURO - Gold - IPCA / IGP-M	- BM&FBovespa - BM&FBovespa - BM&FBovespa - BM&FBovespa - BM&FBovespa - BM&FBovespa
Options ²	The holder has the right of buying or selling an object-asset at a certain price. For the option writer, a future obligation is opposed against the holder's right, in case that right is performed by the holder.	- Foreign exchange rates Flexible options - One-day DI - Ibovespa - Bovespa Index	- CETIP - BM&FBovespa - BM&FBovespa
Swaps	Contract where both counterparties exchange a floating or prefixed rate for another with the objective of hedging, matching asset and liability positions and equalizing prices.	- Dollar interest rate - Credit Swap - Cash Flow Swap - Reset Swap ³	- BM&FBovespa - CETIP - CETIP - CETIP
Indexes	Contracts based on a performance indicator of a theoretical portfolio. It measures the return on the Bovespa's most negotiated stocks.	- Bovespa Index - Ibovespa - Brazil 50 Index - IBrX 50 - Brazil Index - IBrX	- BM&FBovespa - BM&FBovespa - BM&FBovespa

Notes: 1. Contracts are listed at the following sites: BM&FBovespa (www.bmfbovespa.com.br) and Cetip (www.cetip.com.br) – see Annex Glossary and Sites for English versions of respective sites. 2. Resolution 2687/00 allows investors to do business of term, futures and options contracts referred to agribusiness products. In these cases, the investor does not have to bring his financial assets into Brazil, and he may settle his business in accounts open by BM&FBovespa specifically for that purpose, being BM&FBovespa responsible for foreign exchange contracts and tax withholding of these investment. 3. Reset swaps may be periodically market-valued, considering market conditions.

3.7 - Depositary Receipts

Table 3.7

DR - Depositary Receipts ¹	
Definition	Certificates representing stock or other securities that represent rights to stock, issued abroad by the depositary institution, and pegged to securities held in custody in Brazil.
Parties in the Issue Process	Sponsor: the publicly-held company in Brazil that issues stock or securities under the Depositary Receipts program and has signed a specific contract with the depositary institution; Custodian: the institution in Brazil authorized by the Brazilian Securities and Exchange Commission (CVM) to provide custodial services for the specific purpose of DRs. It is responsible for providing information about the portfolio to the Brazilian Central Bank and CVM. Depositary Institution (Issuing Bank): the institution that, based on the securities held in custody in Brazil, issues the corresponding DRs abroad.
RDE (Electronic Declaratory Register)	DRs must be registered with the Brazilian Central Bank (RDE), under the responsibility of the custodian.
Redemption/ Cancellation/ Transfer	Stock corresponding to the DRs being redeemed may be sold in the Brazilian market and funds may therefore be remitted abroad or the stock or securities may be withdrawn from the program's depositary account, as a result of which the holder of these assumes the status of investor under the terms and conditions of other types of foreign investment.

Notes: 1. DR – Depositary Receipts are a specific investment mechanism (not regulated by Res. 2.689), also mentioned in Annex V to Res. 1.289/87.

3.8 - Agribusiness Derivatives

Table 3.8

Agribusiness Derivatives ¹	
Definition	Operations involving forward, futures and options contracts for agribusiness products in the BM&FBovespa.
Requirements	The requirements relating to registration data, collateral margins and daily adjustments are the same as those applicable to residents in Brazil. (See www.bmfbovespa.com.br).
RDE	These must be registered with the Brazilian Central Bank (RDE), under the responsibility of the BM&FBovespa.
Custody	The BM&FBovespa is authorized to open a depositary account abroad in order to receive the securities in compliance with the collateral margin requirements, and a current account for the financial transactions relating to the operations.
Acquisition of Foreign Exchange	The BM&FBovespa is responsible for acquiring the foreign exchange relating to the operations on behalf of its members.
Prohibitions	Execution of operational strategies that may result in predetermined yield.

Notes: 1. Operations involving forward, futures and options contracts referenced to agribusiness products in the BM&FBovespa, have a specific regulation (Res. 2.687/00).

3.9 - Custody, Trading and Settlement in Brazil

Table 3.9

Custody, trading and settlement in Brazil					
Markets/ Assets	Depository Institution	Trading	Registration/ Clearing/ Settlement	Type of Settlement ²	Settlement Lag ³
Fixed Income					
Federal Government Bonds	SELIC (Special System for Settlement and Custody)	Over-the-counter ¹	SELIC	Real Time Gross Settlement (RTGS)	T+0 ³
		Sisbex Negociação	BM&FBovespa	Deferred Net Settlement (DNS)	
		CetipNET	SELIC	RTGS	
Debentures	CETIP	Over-the-counter ¹	CETIP	DNS or RTGS	T+0
		CetipNET			
	CBLC	BovespaFix	CBLC	DNS or RTGS	T+0 or T+1
CDB (Certificate of Deposits) and DI (Interbank deposit)	CETIP	Over-the-counter ¹	CETIP	DNS or RTGS	T+0
		CetipNET (quotation)			
CRI (Mortgage-backed Securities) and FDIC (Receivables Investment Funds)	CETIP	Over-the-counter ¹	CETIP	DNS or RTGS	T+0
				CetipNET	
		CBLC	BovespaFix SomaFix	CBLC	LDL or LBTR
Agribusiness securities	CETIP	Over-the-counter ¹	CETIP	RTGS	T+0
	BM&FBovespa (SRTA)	BM&FBovespa	BM&FBovespa (SRTA)	DNS	T+2
Variable Income					
Shares	CBLC	BM&FBovespa	CBLC	DNS	T+3
		SomaFix			
Swaps	-----	OTC ¹	CETIP	Bilateral or RGTS	T+0
			BM&FBovespa	DNS	T+2
Future DI, foreign exchange, IBOVESPA contracts	-----	BM&FBovespa	BM&FBovespa	DNS	T+2
Stock, financial and commodities derivatives	-----	BM&FBovespa	BM&FBovespa	DNS	T+1
Other Derivatives ⁴	-----	Over-the-counter ¹	CETIP	Bilateral or RGTS	T+0
		BM&FBovespa	BM&FBovespa	DNS	T+1

Notes: 1. Bilateral trading, by telephone or, in the case of federal government bonds, also by means of voice systems. 2. In Brazil, systems that execute settlements in the net deferred mode operate as central counterparties, except when the risk is on the issuer; thus in the CETIP, the settlement mode depends on the operations consisting only of the issuer's risk (placements, redemptions and events – DNS) or market risk (RTGS), since this chamber does not act as a central counterparty. 3. This settlement lag refers to the System. In the government bonds market, usually forward transactions (registration in T+0; settlement in T+1); for non-residents, this option signifies remittance of funds two days in advance (since forward operations in the SELIC are settled at 9:30am), that is, a lag of T+2. 4. Derivatives with registration/settlement at CETIP: swaps (including cash flow and with reset), options on swaps, forward (currency term - NDF), credit derivatives, 'buy & sell flexible options', flexible options on exchange rates. Derivatives traded on the São Paulo Stock Exchange (Bovespa): Single-Stock Futures Market, Options Market and Forward Market.

► Taxation

► IR - Income Tax

Fiscal treatment of non-resident investors on Brazilian financial and market capital investments basically differs according to the origin of the funds. Investors from countries that don't have "favored taxation"³ will have the right to Brazilian tax benefits, provided they fulfill the conditions established by the Monetary National Council regulations – already mentioned in previous chapters.

Therefore, income tax incidence in these cases follows specific rules. There is no income tax on investments on capital gains⁴ from shares or stocks. Dividends and cash bonuses are also exempt. Gains from stock investment funds, swaps and futures markets, out of the Stock Exchange, are levied to a 10% tax rate.

Yields originated from government bonds are subject to a 0% tax (as of 16/2/06⁵). As previously mentioned, ANBIMA proposed and supported tax exemption on non-resident government bonds purchases, with the purpose of increasing investors participation on debt market, especially in the nominal and long term bonds segment. Non-resident exclusive investment funds shares with a minimum of 98% in government bonds also falls in this category (subject to a 0% tax), as well as the revenue from shares of private equity investment funds (FIP), and venture capital⁶ investment funds (FIEE).

At the end of 2010, bonds issued by non-financial private issuers related to investment projects and investment funds that hold more than 85% of such bonds in their portfolios (with specific characteristics described at Law n. 12.431) also became subject to a 0% tax, as well as those investment funds with portfolios comprising of, at least, 85% of debentures with those features. To be subject to a zero tax, private bonds must have the following features: average term of over four years; remuneration by fixed rate, or linked to price index or TR – referential tax; it is prohibited the repurchase, by the issuer, in the first two years after issuing, as well as the redemption of that bond before its due date; a resale agreement assumed by the buyer is not allowed; periodic coupons, if existent, must have a minimum interval of 180 days; it must be proved that the bond have been negotiated on organized (OTC or exchange) securities markets; and it must have a simplified proceeding that shows the goal to allocate the resources obtained on investment projects, including those that are related to research, development and innovation. Other incomes, including all other fixed-income revenue, are levied to a 15% tax rate. Recently, Real State Receivables Certificates (CRI) were included among the securities subject to a 0% tax. For more information regarding Law n. 12.431, please refer to http://www.anbima.com.br/informe-legislacao/2011_007.asp.

In november 2013, Provisional Measure n. 627 (later converted in Law n. 12.973) defined that all yields originating from investment funds that are intended exclusively for non resident investors are exempt from the income tax if their portfolio is composed exclusively by cash or assets (government bonds, stocks, etc) that are exempt or subject to a zero tax (regarding income tax) when the beneficiary of these yields is a non-resident.

In the case of investments from countries which are not subject to an income tax rate of 20% or more ("tax havens")³, the above mentioned tax benefits do not apply. These investments are subject to the same rules of domestic investors. Regarding Stock Exchange gains, they are levied on a 15% income tax rate, while fixed income and swaps operations are levied with decreasing rates, between 22.5% and 15%, depending on the maturities.

► IOF – Tax on Credit, Exchange and Insurance Operations, or Stock or Security Operations.

Investments are subject to an IOF levy on redemptions, transfers or renegotiations that occurs within 30 days of the acquisition of fixed income securities (except debentures, CRI - Real Estate Credit Certificate and Banking Financial Notes), investment funds and investment clubs⁷ redemptions performed by foreign investors. The tax rate is 1% a day, limited and decreasing in relation to the period (from 1 to 30 days), to the operations revenue (from 96% to 0%)⁸. The acquisition or sale of exchange derivatives contracts that result in the rise of the short position or reduction of the long position was also subject to a tax of 1% as from 27/7/11, according to the rules

3. "Favored transaction" or "Tax Havens": countries or jurisdictions in which there is no income tax or income tax is less than 20%.

4. Capital gains are positive results coming from Stock Exchange trades, except for box operations, and gold and financial assets operations, traded out from the Stock Exchange.

5. Zero rates are not due for securities purchased with buyer's resale commitment.

6. These funds must have a minimum of 67% of stocks from joint stock companies, debentures convertible into stock and subscription bonus.

7. Note that Law n° 8.929/94, article 19, §2°, exempts from IOF, operations with CPR – Rural Product Notes on stock exchange markets and over-the-counter markets.

8. This IOF is also known as short-term IOF. It also applies to resident investors, with the main objective of discouraging very short term trading.

established by Law n. 12.543. However, in June/13, this tax was reduced to 0%.

Brazilian laws also include IOF on inflows of foreign resources to be applied to financial applications. Since June/13 there is a 0% tax on the settlement of exchange operations when the money enters the country to be invested in the Brazilian financial and capital markets.

Finally, it is worth mentioning that under the law, the previously designated legal representative of the foreign investor is responsible for compliance with the tax duties of the transactions he will perform on behalf of the client. That responsibility only applies to taxable net gains. In agribusiness derivatives operations, mentioned in the previous chapter, BM&FBovespa is responsible for tax withholding and payment. In other cases, responsibility lies with the legal entity which pays the revenues, or with the fund administrator or the investment club.

The following tables summarize IR and IOF tax rates for foreign investor investments in the Brazilian financial and capital markets.

Table 4.1

Taxation of non-residents – Income Tax		
a - General Rules ¹		
Investment types	Rates	
Yield		
- Government Bonds ² ; - Non-residents only investment funds, in which 98% of the portfolio is made up of Government Bonds; - Private bonds subject to the conditions established by Law n. 12.431; - Real State Receivables Certificates (CRI), as established by Law n. 12.431; - Investment funds which portfolio is composed by, at least, 85% of debentures with the characteristics defined by Law n. 12.431; - Non-resident only investment funds which portfolio is composed exclusively by cash or assets that are exempt or subject to a zero tax when the beneficiary is a non-resident.	Exempt	
Corporate Bonds (or those issued by financial institutions) and Fixed Income Funds	15% ³	
Swaps	10% ³	
Stock Investment Funds	10% ³	
FIP, FIC-FIP and FIEE ⁴ .	Exempt	
Capital Gains	In stock exchanges	Outside stock exchanges
Stock or Stock Indexes	Exempt	15%
Other Derivatives	Exempt	10%
b - Rules applicable to other investors, including those from regions with favored taxation ⁵		
Investment types	Rates	
Yield		
- Government Bonds - Private Bonds - Fixed Income Funds - Long term ⁶ - Swaps	- up to 180 days: 22.5% ³ - 181 to 360 days: 20% ³ - 361 to 720 days: 17.5% ³ - more than 720 days: 15% ³	
Fixed Income Funds - Short term ⁶	- up to 180 days: 22.5% ³ - more than 180 days: 20% ³	
Stock Investment Funds, FIP, FIC-FIP and FIEE	15% ³	
Capital Gains (in stock exchanges and over-the-counter market)	Rates	
Stock or Stock Indexes	15%	
Other Derivatives	15%	
Day Trade	20%	

Note: FIP – Participation Investment Fund, FIC-FIP – Investment Funds in quotas of Participation Investment Funds, FIEE - Emerging Companies Investment Funds.

Notes: 1. Rates for investors from regions where income is taxed and whose funds had been remitted in accordance with the norms of the National Monetary Council. 2. Government bonds subject to a resale agreement are not exempt from income tax. 3. Withholding Tax on yields. 4. This exemption does not apply to the investor who, solely or together with related persons, represents 40% or more of the total quotas or whose quotas give him the right to yields greater than 40% of the total yield. 5. Same rates as applicable to residents. 6. In May and November, withholding income tax of 15% is levied as advance tax due upon redemption.

Table 4.2

Taxation of non-residents	
IOF – Tax on Financial Operations	
Investment types	Types of IOF applicable
Investments incoming for Brazilian financial and capital Markets	none
Bonds issued by non-financial private issuers related to investments projects and investment funds that hold more than 85% of such bonds in their portfolios (with specific characteristics described at Law n. 12.431)	none
FIP, FIC-FIP and FIEE	none
Acquisition or subscription of stocks in public offerings	none
Stock and Derivatives, in Exchange Venue	none
Acquisition or sale of exchange derivatives when it results in the rise of the short position or reduction of the long position	none
Short term transactions on Government Bonds, Fixed Income Investment Funds and Bank Deposits	On Yields, according to Investment Term ¹

Notes: 1. IOF on fixed income securities is levied on redemption of investments up to 30 days, with decreasing rates.