



**CVM**

*Comissão de Valores Mobiliários*

# **Challenges Posed to the Development of Corporate Bond Market in Brazil**

*Carlos Rebello*

*4th OECD/World Bank Bond Market Workshop  
Washington-DC, March 8 2002*

# Background of Corporate Bond in Brazil

- ➔ **1882 The Beginning**
- ➔ **1893 First Default**
- ➔ **1976 Full Disclosure**
- ➔ **Past Recent Performance**

# The Market at Present

## Domestic Funding Sources (December 2001)

|   |                       |
|---|-----------------------|
| <i>Bank Loans</i>                       | <i>R\$123 billion</i> |
| <i>Development Bank Loans&amp;bonds</i> | <i>R\$ 80 billion</i> |
| <i>Bonds</i>                            | <i>R\$ 38 billion</i> |

# The Market at Present

## Debt Securities Issues Registered with the CVM (Dec. 2001)

|                                   |                           |
|-----------------------------------|---------------------------|
| <i>Bonds</i>                      | <i>R\$ 15,200 million</i> |
| <i>Commercial Papers</i>          | <i>R\$ 5,300 million</i>  |
| <i>Mortgage Backed Securities</i> | <i>R\$ 200 million</i>    |

## Characteristics of Bond Issues

*Prospectus, Rating, and Book Building*

## A Game Played by Large-Cap Companies

*Only 41 public companies raised funds [R\$ 15,200 million] by issuing bonds in 2001.*

# Treasuries v Bonds

**Positive aspects or lessons to be taken from Treasuries market to develop Bonds Markets**

*Standardization*

*Building a yield curve*

*Recent Experience of a liquid and transparent market*

*Central Bank as Market Maker*

*Selling Treasuries to Retail Investor through Internet*

# Treasuries v Bonds

**Facts of Treasuries Market negatively influencing the development of Bonds Markets**

*Crowding out by Treasuries [Treasuries represent more than 90% of R\$ 450 billion portfolio of Investment Funds.]*

*Short term of the most liquid treasury [6 to 12 months to maturity]*

*Captivity of relevant sources*

# Perspectives

## Supply Side:

- *Funding to face country's GDP growth*
- *Low debt/equity ratio of corporations*
- *Expansion of bonds terms*

# Perspectives

## Demand Side:

- *Reduction of Government Indebtedness*
- *Growing of Investment Fund Industry and Retirement Investment Plans*
- *Retail Investors*

# Perspectives

## Challenges:

- *Cost Reduction to Issuers Besides Interest Rate*
- *Liquidity in Secondary Markets*
- *Investors' Protection*

# Perspectives

## Measures to Take:

- *Standardization of Indentures*
- *More Expedite Registration with the CVM*
- *More Transparency on Trades*
- *Enhance Investors' Protection*

**Carlos Alberto Rebello Sobrinho**

**Superintendência de Registro de Valores  
Mobiliários**

**tel: (5521) 3233 8241 fax: (5521) 3233 8356**

**rebello@cvm.gov.br**



**Comissão de Valores Mobiliários**  
Comissão de Valores Mobiliários

**[www.cvm.gov.br](http://www.cvm.gov.br)**  
**[www.cvm.gov.br](http://www.cvm.gov.br)**