

Learn how financial bills were introduced in Brazil, what this security has promoted on the national stage and what some of its primary challenges are starting in 2012 by reading the following article by Soraya Lysenko, head of Corporate Trust at BNY Mellon.



Financial Bills: A New Form of Long-term Investment

Credit instruments issued by financial institutions with a term longer than two years. This is the definition of a financial bill (LF), a long-term instrument issued by a financial institution. Seems simple, right? The issue is that while they are a widely used resource in the international financial market, not much has been said on this topic yet here in Brazil. The result? Plenty of questions, as well as great opportunities for this segment.

As a result of the crisis that struck the United States and Europe in 2008, LFs emerged in the country to help combat the scarcity of foreign investment, which had historically met the long-term capital-raising needs of Brazilian financial institutions. This is because the latter were prevented from issuing instruments equated to debentures since the Central Bank of Brazil only permitted short-term capital raising through traditional bank certificate of deposits (CDBs) and the use of demand deposits to meet cash-flow needs.

Against this backdrop, the Brazilian government passed Law No. 12249 in June 2010, which allowed financial institutions to issue LFs. This enabled companies to better manage their cash flow, as well as eliminate their exposure to exchange rate variations, which generates hedging costs and subjects institutions to the market's abrupt volatility changes.

In a little over a year, LFs have become one of the largest growing fixed-income investments in Brazil. To give you an idea, one year after their first issuance on 30 March 2010, the financial market had already shown a total amount of R\$53.3 billion raised through LFs. In 2011, a total volume of approximately R\$63.7 billion was traded according to information obtained from the CETIP S.A. - Mercados Organizados (CETIP) website.

With an initial investment value of R\$300,000, LFs, just like debentures, have been acquired by institutional investors because they are long-term securities with an attractive yield, factors that are restrictive for small- and medium-sized investors according to the rules established by the Brazilian Securities and Exchange Commission (CVM). For the latter two, acquiring CDBs continues to be a sound option. They start at R\$200 each, have no grace period, are available for purchase online from the investor's bank of choice and are also backed by the Credit Guarantee Fund (FGC) for amounts up to certain limits.

Organizing to grow

While LFs have a more robust and flexible legal structure than CDBs, the lack of awareness on the part of investors - coupled with the absence of a platform for distributing the product - makes it difficult to acquire these securities on a large enough scale to meet market demand. Furthermore, their long-term nature and inability to be redeemed before maturity strongly demand the creation of a secondary market, which is almost non-existent in Brazil today. It is therefore essential that an operational platform be developed that can process a larger volume of operations transparently and securely for the investor.

As for the national financial market, if we use debentures as our parameter, two other important challenges must be overcome. First, the roles of each market participant need to be clearly defined. Second, strong actions need to be encouraged from independent agents who have the authority to act on behalf of investors and who can efficiently run the operational platform since an increase in volume undoubtedly implies a larger investor base, much of which is constituted by non-qualified investors.



Some feel that this could lead to an increase in costs but we believe that the security, speed and transparent information requirements easily make up for this price. Until investors have the impression that the control of their position is correct and that there are clear parameters for action for agents to ensure it is defended, there will be little interest in seeking out these securities on the part of interested parties. This is shown to be very much the case, particularly in situations in which measures – legal or otherwise – need to be taken in regards to the clauses established in a contract or even in relation to a failure to repay the debt.

The inclusion of the so-called “covenants” for monitoring the financial position of issuers – currently under discussion by authorities and not yet implemented – is also shown to be very important to the security of investors who acquire a long-term instrument. These covenants have already been widely discussed in the market and by the Central Bank of Brazil itself and they must be implemented fast if we want to make the minimum amounts and terms flexible so that LFs can become as popular as CDBs are.

In summary, the introduction of LFs represents a major step forward in the development of the Brazilian capital market. It is now up to the participants in this area and the authorities to make the necessary adjustments to the rules and implementation of the product to ensure more transparency and security for investors, in addition to other fiscal measures that could serve as an incentive for the acquisition of the securities as a reliable, attractive and safe form of investment.

Soraya Lysenko has been responsible for the Corporate Trust area of BNY Mellon in Brazil since 2006. She began her career in the exchange division at an international Spanish bank and managed the “Operations” and “Middle Office” areas of international financial institutions, responsible for local and international market operations. In 2001, she was invited to structure the area of Corporate Trust in the local market for J.P. Morgan Bank and was later transferred to BNY Mellon in 2006. She graduated with a degree in social sciences from the Universidade de Sao Paulo and currently focuses on structuring new products and market strategies. She served as a speaker at the seminar “Financial Bills: The Challenge of Increasing the Popularity of this Market in Brazil and Promoting Public Offerings,” held in October by INOVA SEMINÁRIOS.

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