

## **SPECIAL OPERATIONS WITH EXTERNAL DEBT SECURITIES**

Based on various legal instruments, the Brazilian government is authorized to carry out operations involving restructured federal external public debt securities, involving buybacks or exchanges for other papers (domestic and external issuances). The major objective of these operations is external liability management, with the purpose of reducing the outstanding debt and debt burden, by lengthening maturities, adjusting the public debt profile and encouraging specific operations.

### **I – Buyback operations of External Federal Public Debt Securities for new external securities**

Authorization for these operations was given by Federal Senate Resolution no. 69/96, which sought to create a connection between the results of these operations and benefits that could be generated for the country. The Resolution determined that net financial gains obtained in exchanges and/or buybacks must be utilized to reduce the domestic or external public debt.

Among other objectives, on carrying out an exchange or buyback operation, the Brazilian government seeks:

- to withdraw securities issued as a result of renegotiation of the Brazilian external debt from the market and, in this way, improving the Brazilian-risk perception;
- to correct excessive concentration of maturities;
- to reduce the volatility of Brazilian securities generated by specific securities;
- to obtain net present value gains.

No upper limit had been imposed on operations involving buybacks or exchanges of securities for new bonds. Despite this, when carrying out each operation, the Ministry of Finance must submit a report to the Federal Senate.

Federal Senate Resolution no. 20 substituted Resolution 69/96 as of 2004. Basically, the new Resolution maintained the rules previously in effect, but broadened the scope of liability management operations in order to expressly include operations with financial derivatives. The new Resolution renewed and increased issuance limits and defined more detailed rules that would make it possible for the Senate to exert greater control over these operations. One of these demands requires submission of detailed specific reports on these operations. At the same time, the Resolution innovated in typifying the crimes committed for noncompliance with its provisions.

## **II – Exchanges of restructured External Federal Public Debt Securities for Domestic Debt Securities with similar characteristics**

These operations involve exchanges for securities issued as a result of Brazilian external public debt restructuring agreements (BIB, IDU and Bradies), at the exclusive discretion of the Ministry of Finance. In this case, National Treasury Notes - Series A (NTN-A) were issued in various subs-series, depending on the external security to be exchanged.

Operations were carried out according to the terms of the following instruments: Law no. 10,179, dated the 02/06/2001; Decree no. 3,859, dated 07/04/2001 and Ministry of Finance Directive no. 55, dated 03/12/1999.

The external securities accepted for exchange are listed in the table below, together with the respective domestic debt bonds. The domestic securities had the same characteristics as the external debt ones utilized in the exchange process, with redemption terms equal to the maturity of the substituted external security still to elapse. In the case of collateralized securities (Par and Discount Bonds), the guarantees were released to the National Treasury.

The exchange process began with a request from the interested party to the STN (National Treasury), indicating the securities to be utilized, the series, numbers, issuance dates, values, identification of those holding the securities, names and addresses of the persons to be contacted.

Following STN request analysis, it is sent to the Attorney General of the Min. of Finance - PGFN, for examination of its legal aspects. Once the operation has been approved, the STN initiates the formal procedures for the exchange conclusion.

The new securities representing domestic debt are always issued on the 15th day of each month. Consequently, considering the normal processing of these operations, registration of the request at the STN was made at least 30 days beforehand.

The following chart contains a list of the external securities accepted in these operations and shows the respective domestic papers issued in the exchange operation.

RESTRUCTURED EXTERNAL DEBT	DOMESTIC DEBT
<b><u>1998 and 1992 Debt Restructuring Agreement</u></b>	
Brazil Investment Bond (BIB) or Exit Bond	NTN-A1
Interest Due and Unpaid Bond –IDU	NTN-A2
<b><u>Brady Plan (1992 Brazilian Financing Plan)</u></b>	
Par Bond	NTN-A3
Discount Bond	NTN-A4
Front-loaded Interest Reduction Bond – FLIRB	NTN-A5
Front-loaded Interest Reduction Bond with Capitalization – FLIRB C (C-Bond)	NTN-A6
Debt Conversion Bond – DCB	NTN-A7
New Money Bond – NMB	NTN-A8
Eligible Interest Bond – EI Bond	NTN-A9

### III – Exchange operations designed to stimulate the Brazilian Audiovisual Sector and National Cultural Fund

Other legal instruments authorized exchanges of restructured federal external public debt securities issued as a result of the Brady Plan and Interest Due and Unpaid Bonds - IDU for domestic debt securities (National Treasury Notes - Series D – NTN-D), to be invested exclusively in:

- Projects involving production, distribution, exhibition and publicity activities in Brazil and abroad, focused on Brazilian audiovisual works, preservation of the segment's memory and documentation;
- Donations to the National Cultural Fund - FNC.

The exchanges were limited to US\$ 150,000,000.00 (one hundred and fifty million dollars) per 12-month period and for each project, duly observing the value limits approved by a Ministry of Culture Directive.

Exchanges are made at par, with the exception of Par Bonds, which have an initial discount of 35% of the face value of the security. This discount is reduced every six months as of the date of issuance.

The corresponding legal instruments were Law no. 8,313, dated 12/23/2000, Law no. 10,179, dated 02/06/2001 and Ministry of Finance Directive no. 202, dated 08/19/1996.

The process was initiated through remittance of a request from the interested party to the Ministry of Culture, which then sent information on the exchange to the STN, indicating the papers to be used, the series, numbers, issuance dates, values, identification of those holding such papers, names and addresses of the persons to be contacted.

Following STN analysis of the request, it is sent on to the Attorney General of the National Treasury - PGFN. Once it has been approved by the PGFN, the STN implements the formal proceedings required to conclude the operation.

New papers representative of the domestic debt were always issued on the 1<sup>st</sup> day of each month. Considering the normal processing time, it was recommended that requests to be registered at the STN at least 30 days beforehand

NOTE: the operations cited in items II and III are, for all practical purposes, no longer carried out, since the securities issued as a result of Brazilian external debt restructuring agreements were redeemed. At present, only a residual quantity of papers denominated Brazil Investment Bonds (BIB) remain on the market, due to an absence of a call option embedded in that instrument.