



**The School of Business and Public Management
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**RAISING CAPITAL IN THE BRAZILIAN STOCK MARKET AND
THROUGH AMERICAN DEPOSITARY RECEIPTS - ADRs**

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I- Introduction

The principal aims of this paper are to analyze the factors which stimulate interest in financial market investment and the recent history of the stock market in Brazil (from the 1970's to 90's), highlighting the importance of corporate governance in the development of a country's stock market.

The following shall also be discussed: (i) the main weaknesses of Brazilian Corporate Law (in particular the ***Lei de Sociedades por Ações*** (the law governing the issue of shares by corporations) hereinafter referred to as 'LSA'. (ii) the reforms proposed by draft law currently being considered by Congress and (iii) the "New Market" recently launched by the São Paulo Stock Market - BOVESPA.

I shall also seek to explain the mechanisms which control the issue of American Depositary Receipts (ADRs), and the different levels, costs and time-limits relating to the same.

I shall also seek to analyze the causes and effects of the increasing demand for ADRs in the US, and the rush to launch Brazilian corporation shares onto the American market. In conclusion, I shall propose certain measures, which, if adopted, should contribute significantly to the growth of the stock market in Brazil, and increase its competitiveness *vis a vis* the international market.

II- Saving, Investment and The Stock Market

Economic theory defines investment as an increase in the capacity to produce goods and services.¹ Investing pre-supposes withholding from immediate consumption, in other words, it involves economizing (saving). The rationale behind abstaining from immediate consumption is that so doing will lead in the long run to an increase in income wealth, and consequently, social well-being.

Efficient allocation of scarce resources (so as to obtain the maximum possible future increase in the value of income not immediately spent) requires that the resources set aside as savings be used to finance investments which generate increased future returns.

In the normal course of events, the saver and investor are distinct agents. Linking savings and investments via capital and credit markets is thus of utmost importance to the economic growth of any given country. Analysis of economic history clearly and incontrovertibly reveals a perfect correlation between the development of financial markets and robust economic growth.

The level of saving varies considerably from country to country. Economically disadvantaged countries tend to have comparatively low rates of voluntary internal saving largely as a result of the fact that many inhabitants of such countries have barely enough income to meet their present needs. The situation is further exacerbated by fiscal deficit

¹ Either by way of an increase in capital stock or increased productivity.

and those countries also have high level of fiscal deficits, let alone save for the future. The result is a vicious circle whereby the absence of savings means that there is an inadequate level of investment and thus an unsatisfactory level of future income generation.

External sources of funding, limited and controlled by long term stability in the Balance of Payments is essential to enable such countries to increase the amount of capital available in the economy.

The governments of many countries, including Brazil, use compulsory saving mechanisms to raise funds. The economic efficiency of such mechanisms is however questionable, given that it is the Government which assumes responsibility for the allocation and investment of the funds generated. In general, governments compare unfavorably with the market in terms of investment performance (social allocation may be politically biased).

Furthermore, again using Brazil as an example, compulsory saving mechanisms frequently lead to a phenomenon known as *crowding out*², whereby the Government uses private capital to pay public debts, thereby balancing public accounts at the expense of the private investor.

We may consider the effects on financial resources of intermediation in two significant markets:

² The Government, in forcing people to save in this way, is, in reality, withdrawing resources which might otherwise be applied by the market, in accordance with the factors of supply and demand of the relevant economic agents. This trade off is known as crowding out.

- the credit market, in which intermediary banks apply funds raised from third parties as loans to individuals and businesses, on the basis of a contract; and
- the capital market, in which savers, acting of their own accord or via investment banks, finance companies through the purchase of bonds and/or stocks.

So far as the credit market is concerned, alignment of time limits for the raising and application of funds is an essential pre-requisite to development. In Brazil, for example, private banks do not offer long term credit, given the lack of available long term funding, (apart from the compulsory saving mechanisms operated by the government-owned banks).

A solid legal structure supporting a system of guarantees and non-interference by the government in the administration of banks are further key characteristics of a healthy credit market.

So far as the capital market, especially in the stock market, is concerned, three independent factors are critical to its development: (i) ease of access; (ii) liquidity and (iii) transparency.

(i) Ease of access is linked to the democratization of capital, in other words, the availability of economic agents willing and able to invest in company shares and securities. In the US, for example, 50% of the total number of shares traded on the stock

market are owned by individuals, the rest being held by pension funds, investment funds or insurance companies ³.

In Brazil, on the other hand, there is very limited participation by individual investors in the market. The demand for shares and securities comes mainly from the institutional investors (pension funds, mutual funds with priority investing in stocks and speculative dealing by banks and brokers). The stocks and shares industry continues to be comparatively unsophisticated.

(ii) Liquidity, which is intrinsically linked to ease of access, measures the convertibility (into cash) of assets. There can be little doubt as to the importance to smaller investors of liquidity of company shares. In Brazil, however, comparatively few companies offer genuinely satisfactory liquidity and breadth of investors, in other words, few have the necessary daily volume of trade on the stock market.

(iii) Transparency in an efficient capital market requires wide-ranging publication of information which is relevant to companies, especially with a view to avoiding the influence on price setting of dissemination between agents of unfounded or inaccurate information. In-depth knowledge of the rules and confidence in their consistent application are fundamental both to the elimination of political risks as a factor in price setting and to establishing and maintaining the credibility of the capital market.

³ Source: BOVESPA, "O Mercado de Capitais: Sua Importância para o Desenvolvimento e os Entraves com que se Defronta no Brasil", a study by Tendências - Consultoria Integrada, July 2000;

III- Recent History of The Brazilian Stock Market

The financial services market in Brazil has a long way to go before it reaches the standard of similar markets in more developed countries.

In addition to legal and institutional issues, and again taking the example of Brazil, we can see that the absence of the forces of supply and demand is a significant inhibiting factor in the development of the market.

The Brazilian economy, which was largely closed to foreign investment until the early 1990's, fostered a culture of small companies offering products to a limited and generally non-competitive market.

As a result, investment with a view to making or maintaining profit remained at a low level, companies in general obtaining the necessary funds via government-subsidized loans principally from the National Social and Economic Development Bank (Banco Nacional de Desenvolvimento Econômico e Social – BNDES).

It should also be noted that for the greater part of the 20th century, and in particular during the 60's and 70's, the Government was the only significant financial player in the economy. It defined company finance mechanisms and controlled them via tax policies. Low levels of internal saving inhibited the kind of voluntary funding which might have led to the development of a long-term credit market and/or strong demand for company shares and securities, the cornerstone of investment financing.

It was during this period that National Insurance (the Fundo de Garantia de Tempo do Serviço - FGTS) and the PIS/PASEP programs, which are the principal compulsory saving mechanisms applied by the Government, were established. Brazil went through a period of strong economic growth (over and above 10% annually) between 1968 and 1973, with investment levels (by the Government) at around 20% of the GDP.

The 1970's saw the establishment of several new holding companies *inter alia* in the steel, electricity, port, telecommunications and tourism sectors, in which the National Treasury was the controlling shareholder. The largest and most significant of such companies was the petroleum giant PETROBRÁS established in 10/03/1953.

These companies were the first to make efforts to raise capital by issuing shares, and the 1970's saw a short-lived rush to buy shares in state-owned enterprises.

Law n° 6404/76, the LSA (Lei das Sociedades por Ações) which governs Share Companies, was passed in 1976. This law, which remains in force was (and is) favorable to controlling shareholders, in particular in that it allows them to control the majority of voting shares of a company while owning only 16.7% of the total capital. The law enables companies to issue up to 2/3 of its shares as non-voting preference shares.

Not surprisingly, the prevalence of small companies with a limited capital base and an excessive concentration of power in controlling shareholder was a considerable disincentive to potential investors.

In the 1980's economic slowdown further inhibited company investment and there was a decline in volume in the capital markets and liquidity became concentrated in the large state owned companies. There was, however, a marked improvement in financial instruments during this period, including the introduction of trading in derivatives and futures.

Economic growth during the 90's remained sluggish. However, inflation was successfully brought under control by the introduction in 1994 of the Real Plan, based on clearly defined exchange rate policies. The policies underwent some major changes in January 1999, but it nevertheless seems that inflation has been brought into line and that the indexation structures of the old inflation-ridden economy have been dismantled.

Another highly significant development was the opening up of the Brazilian economy (including its capital market) to foreign investors. A procedure known as Annex IV was introduced to deal with the influx of foreign investment into Brazilian stock markets, and between 1993 and 1998 an annual average of US\$ 3.3 billion flowed into the market from abroad.

A strong program of privatization, which started with the sell-off of steel companies, was another relevant factor in the performance of the capital markets in the 90's. Privatization of telecommunications, railways, and the energy sector (the process in respect of the latter remains incomplete, but is in progress) followed, as did the granting of concessions for private investment in highways and their management.

Foreign companies have been active players in the privatizations, particularly in the telecommunications and energy sectors.

There are further current and/or anticipated privatizations in the energy and sanitation systems.

Privatization has had two effects on capital markets. Insofar as listed companies acquired by Brazilian groups are concerned, for example the majority of steel companies and some telecommunications companies (particularly TELEMAR, the conventional phone operator in 16 of the 28 Brazilian states), the tendency has been stability, or in some cases, an increase in the liquidity of shares on the stock markets.

In companies acquired by foreign groups, however, there is a strong tendency towards closure of capital (cessation of trading of the shares on the stock market) as a result of the purchase by controlling shareholders of the minority shareholdings. Once a shareholder has acquired control, the minority shares tend to fall in price, and are frequently acquired by the controlling shareholder. The result has been a drastic reduction in liquidity in such companies and desire not to be a minority shareholder.

The opening up of the Brazilian economy in the 1990's and the consequent increase in the flow of capital to and from abroad led to the trading of Brazilian company shares on foreign stock exchanges, principally the New York Stock Exchange, via the launch of American Depositary Receipts - ADRs, which shall be further examined in Chapter VII.

Despite the continuing existence of adverse factors, the outlook for growth of the Brazilian capital market is positive. The main reasons for optimism are as follows:

1. continuity in the process of opening up the market for goods and services and the consequent need for companies to seek fresh investment in order to remain competitive in expanding markets;
2. the monetary stability achieved by the Real Plan, (in spite of the fact that there are still risks inherent in the country's implementation of its economic policies);
3. the Government's fiscal stability, as per agreement with the International Monetary Fund and enshrined in recent legislation (Lei de Responsabilidade Fiscal - Law of Fiscal Responsibility);
4. the tendency towards falling real interest rates and growing demand for higher-yield investments, in particular, company shares;
5. the institutionalization and growth of private pension and social security policies as a source of voluntary saving;
6. continued progress along the path of privatization, leading to new investment opportunities for private investors, particularly given that the Government's investment capacity is currently over-stretched;

7. the continued development and growth of pension and investment fund services (mutual funds, private equity, etc.);
8. the creation of regulatory systems which promote and encourage personal saving and wider access to company capital, and in particular the “New Market” (“Novo Mercado”), dealt with in chapter VI below, and the strengthening of the powers of the capital market regulatory body, the Comissão de Valores Mobiliários - CVM;
9. the reduction in transaction costs in the ‘new economy’ due to technological advances and the consequent reduction in need for brokers and intermediaries;
10. the legislative proposal of the Brazilian Corporate Law under consideration by the Congress; and
11. improving country risk rating to Brazil.

The main negative factors, which currently inhibit the growth of the Brazilian capital market, are as follows:

1. the continued low level of voluntary internal saving;
2. excessive taxation of trading on the market, including the CPMF - Contribuição Provisória sobre Movimentação Financeira (Provisional Tax on Financial Transactions);

3. the high costs involved in being a publicly held corporation, especially a listed company (in Brazil, publicly held corporations are not necessarily listed on the stock exchange, although in practice, most are);
4. the staffing and financial resources limitations experienced by the CVM, due to its being a public authority; and
5. the lack of transparency in the market, and the need for fine tuning of the regulatory measures and the development of more effective corporate governance in particular in relation to the rights of minority shareholders and incentives to investors to apply their savings in the purchase of company shares and securities.

IV- Corporate Governance: Economics and legal aspects

Corporate governance is perhaps the most significant factor which limits the development of the Brazilian capital market. Recent studies have confirmed that the quality of corporate governance in a given country has an influence on the shape and size of that country's capital market.

Corporate governance is related to the ways in which investors (minority shareholders and creditors) – suppliers of capital – are able to safeguard their interests, and, to a greater or lesser extent, secure a return on their investment.

“La Porta *et al.* (1997), (1998) e (1999) demonstrate that countries which afford greater protection to minority shareholders have 1) comparatively larger stock markets ; 2) a lower degree of concentration of the assets of listed companies; 3) a greater number of listed companies per head of population; 4) a greater number of IPOs (Initial Public Offerings) per head of population. Furthermore, 5) corporations in such countries raise comparatively more resources from the stock market; and 6) the markets in which the corporations do business are comparatively larger (when compared on the basis of the correlation between the value of the corporation’s capital assets, and the value of the market in which it operates).”⁴

Magdi R. Iskander e Nadereh Chamlou state, in *verbis*, that:

“Sound corporate governance is important not only to attract long-term patient foreign capital, but more especially to broaden and deepen local capital markets by attracting local investors - individual and institutional. Unlike international investors who can diversify their risk, domestic investors are often captive to the system and face greater risks, particularly in an environment that is opaque and does not protect the rights of minority shareholders. As a group, however, domestic investors frequently constitute a large potential pool of stable long term resources critical to development. If the local capital markets are to grow, corporate governance standards will need to improve to give investors the protection required to encourage them to provide capital.

⁴ in “Desafios e Oportunidades para o Mercado de Capitais Brasileiro”, page 41, BOVESPA, written by MB Associados, June 2000 .

Many developing and transition economies lack the supporting institutions and human resources so critical to sound corporate governance. The challenge for them is to adapt systems of corporate governance to their own corporate structures and implementation capacities, public and private, to create a culture of enforcement and compliance. They need to do so in a manner that is credible and well understood both internally and across borders - and they need to do it far more quickly than did developed countries before them.”⁵

However, investors in a company frequently have interests which are distinct or even in potential conflict. The interests of controlling shareholders, for example, are often quite markedly different from the interests of minority shareholders and/or those who supply the company with external finance.

Investors in publicly held corporations⁶ may be divided into two main groups: shareholders and creditors.

The first group, (shareholders) may be further sub-divided into those who are primarily interested in the undertaking of a given economic activity (“company players”) and those who subscribe to or acquire company shares purely as a financial investment.

We may further distinguish between long-term investors and speculators, based on the motivation behind the acquisition of the shares.

⁵ in “Corporate Governance: A Framework for implementation”, page 2, The World Bank Group Edition, 2000.

⁶ Only publicly held corporation, particularly listed companies, shall be examined in this paper, given that closely held corporation do not trade on the stock markets.

Long-term shareholders seek to create a portfolio of shares designed to provide long-term return on the sums invested. The most significant members of this group are institutional investors: pension and investment funds.

Speculators, on the other hand, are usually after immediate gains and monitor stock markets and other investment opportunities around the world. Their priorities are liquidity and profitability.

Whether or not shareholders play an active part in General Meetings and the administration of a company clearly depends on the strength of their links with it. Company Directors and/or Executive Officers, for obvious reasons, usually belong to the first group of shareholders described above (those primarily interested in the undertaking of a particular economic activity) or are appointed by such shareholders.

Long-term shareholders, in particular the institutional investors, occupy the middle ground between company players and speculators and tend to be more closely involved with the company.

Speculators, on the other hand, generally have no wish to play an active part in company meetings or in forming close ties with other shareholders or the company as a whole.

Their interest in monitoring the management of the company means that they commonly nominate members of the Board and/or Audit Committee, and occasionally

negotiate the establishment of a consultative committee. Kevin Keasey and Mike Wright write that :

“Institutional investors are responsible to the owners of funds which they invest. ... The trustees of pension funds have a fiduciary relationship with the beneficiaries of pension fund, and must act in their best interests.”⁷

In addition to differentiating between shareholders on the basis of the motivation for their investment, it is important to distinguish between the positions of controlling and minority shareholders.

In Brazil, as we have seen above, a shareholder may control a company while holding only 16.7% of the share capital which corresponds to 50% plus one share of the voting shares (ordinary shares). In accordance with the provisions of the LSA Law No. 6.404/76 (Lei das Sociedades por Ações) 2/3 of the total number of shares issued may be non-voting preference shares.

A controlling shareholder is thus defined in the LSA (Lei das Sociedades por Ações) as "an individual or legal person, or group of persons linked together by common vote, or under common control, who/which:

- (a) is entitled, on a permanent basis to exercise majority voting rights at general meetings and to elect a majority of the company's administrators; and who
- b) uses such powers to direct the companies activities and guide the functioning of its managing bodies." ⁸

⁷ in "Corporate Governance: Responsibilities, Risks and Remuneration", pages 25/26, Wiley Edition, 1997 .

⁸ Article 116 of Law 6.404/76.

This may result in a situation whereby shareholders who invest less (in financial terms) direct the company's business, while shareholders who invest more are effectively excluded from corporate decision-making. There is sometimes no correlation between how much an investor contributes in financial terms, and the degree of control afforded over the conduct of business.

Moreover, many company administrators (be they controlling shareholders or professional administrators) seem to take the view that once investors (minority shareholders or creditors) have provided the necessary funds for the company, their purpose is served. These administrators then tend to manipulate company results so as to reduce the level of remuneration (usually dividends or interest) payable to investors (expropriation).

This expropriation occurs in various ways, such as: (i) the sale of company assets to another company owned by the controlling shareholder at below market value; (ii) nepotism; (iii) the payment of unjustifiably high salaries to themselves and/or other company administrators; (iv) the undertaking of projects which are of questionable value to the company, but which serve the purposes of the administrators and (v) mismanagement and/or embezzlement of company resources.

This kind of behavior on the part of the administrators naturally generates suspicion and mistrust on the part of investors, greatly reducing the capacity of companies to raise capital from the financial markets and increases importance of independent audits.

Corporate governance, in this context, means the measures available to such investors to restrict the expropriation of their investments by company administrators.

These measures, which are designed to protect the rights of investors (minority shareholders and creditors) are made up of: (i) laws and regulations governing company management, and the operation of its management bodies (e.g. the Board of Directors, and Audit Committee) and the remuneration of directors; (ii) the publication and dissemination of relevant information about the company (disclosure), dealing with the accounting methods adopted, thus enabling minority shareholders and creditors to check the extent to which their rights are being upheld; and (iii) the mechanisms available to such investors to ensure that their rights are respected (enforcement).

As a rule, the greater the number of members elected by minority shareholders to the Board of Directors and Audit Committee, the greater the degree of protection afforded to minority rights, and the lower the degree of risk to which such rights are exposed. The Board of Directors of Brazilian companies has powers and objects which are similar to those of the Boards of American or British companies i.e. (principally) defining company policy, nominating and dismissing directors.

The Audit Committee, as its name suggests, is a body which monitors the company's performance and undertakes the necessary inspections in order to ensure that the relevant laws, rules and regulations are being complied with.

The remuneration of directors, which in Brazilian companies is usually made up of a basic fixed sum together with a variable portion (share option) is an effective means of corporate governance as it leads to greater convergence between the interests of directors and shareholders.

Enforcement relates to the means by which investors can protect their rights in the face of prejudicial or potentially prejudicial action by controlling shareholders and/or company administrators.

These rights are available both to minority shareholders (in accordance with the LSA (“Lei das Sociedades por Ações”) and/or any Shareholders’ Agreement, and also to creditors, in accordance with the law governing insolvency (Lei de Falências), and certain disputes regarding such rights may, in either case, be adjudged by a court of law.

There are different models of corporate governance in the world, which reflect specific market structures, regulations, legal systems, and cultural and societal values. For example, American and British companies have models which focus on dispersed control, and German and Japanese companies have models that reflect a more concentrated ownership.

In Brazil, as in the rest of Latin America and some European countries (but not the UK), the system of corporate governance is based on the needs of large-scale investors (banks and institutions) and on concentrated ownership, with the result that there is a higher risk of appropriation of the investment of minority investors and small-scale creditors than in those countries where more efficient legal protection is afforded.

However the gradual withdrawal of the State from the management of companies, as a result of privatization, is slowly changing the face of corporate control. There is an increasing tendency in Brazil (although the process is still in its infancy) for shared control between private entities (be they domestic or foreign). In this context, pension funds have a highly relevant and increasing role in the development of corporate governance.

This situation is providing a further opportunity to fine tune the Brazilian corporate governance system, and seems to be wholly consistent with draft legislation currently under consideration by the national Congress aimed at reforming the LSA and, in particular, improving the Brazilian corporate governance model.

V- The Brazilian Stock Market and the Brazilian Corporate Law (Lei das Sociedades por Ações)

V.1- Lei das Sociedades por Ações - LSA

The LSA - n° 6.404 of 15th December 1976 - represented, at the time of its introduction, a significant advance in Brazilian corporate law, but in fact it had, and continues to have, weaknesses which hamper good quality corporate governance.

The first of such weaknesses, as referred to in chapters III and IV above, relates to fact that corporations are permitted to issue 2/3 of their stocks as non-voting preference shares or non-voting preferred shares, which brings about situations in which controlling shareholders, who put up a lower percentage of the company's capital resources, are in

charge of corporate business, while minority shareholders, who invest more capital in the company, are excluded from corporate decision making.

Another weakness relates to the priority afforded to preference shares in terms of priority in the refund of capital. This priority is designed to make up for the fact that the preference shares do not bear voting rights. In practice, however, this does not represent an advantage, as the preference shareholder is only afforded priority in the event of company liquidation.

Clearly, an investor applies money in a company with a view receiving returns on it in the form of profit. Priority of reimbursement of capital in the event of liquidation is not really much of an advantage, when compared with the loss of voting rights.

Yet another weakness is the stipulation that the reimbursement value of stocks⁹ is to be calculated on the basis of their asset value (based on accounting book value), economic value (the value of the share as assessed by a specialist professional) being used for calculation only when expressly provided for in the Bylaws.

Very few Bylaws make such provision. When the asset value of a share is lower than its economic/market value, the absence of this provision is to the advantage of the controlling shareholders, particularly if they wish to introduce measures or pursue policies which are contrary to the interests of minority shareholders. Should the minorities object

⁹ "Art. 45: Reimbursement is the means by which, in situations prescribed by law, a company pays to shareholders who dissent from a deliberation of a general meeting the value of their (the shareholders') shares".

and exercise their right to withdraw their stake (dissenter's rights), they receive sums inferior to the market and/or economic value of their stocks.

Another problem arising from the legislation is that companies are obliged to publish certain financial statements and accounts as well as other information, prescribed by law, in the federal, state or federal district official newspaper (depending on the circumstances) as well as in a major circulation local newspaper covering the area in which the company headquarters are situated.

The cost of publishing such information is substantial, and is a further obstacle to the growth of the Brazilian stock market. In fact, the country is currently experiencing a wave of "closure" of capital, with several companies ceasing to trade their shares on the stock market (and becoming private held corporations), on the basis that the costs of operating as a publicly held corporation, especially as a listed company, are too high (many banks in US feel cost of regulation is too high). The result has been a reduction in the volume of shares and securities traded on the market.

Furthermore, the LSA does not vest in the CVM (the capital market's regulatory authority) sufficient power for it to operate effectively and play a meaningful role in the development of the stock market in Brazil.

Law n° 9.457, of 05.05.97 modified the LSA without, however, remedying its defects, including the defects set out above. In fact, if anything, this mini-reform of the law diminished even further the rights of minority shareholders, moving further away from the global tendency towards increased protection for minority interests.

This reform was aimed principally at speeding up Brazil's privatization program. The justification given at the time was that a more efficient privatization program would attract foreign capital and that it was necessary to modernize the Brazilian economy.

As a result, minority shareholders had their rights of withdrawal (dissenter's rights) limited in mergers and acquisitions, and excluded altogether in the event of company division. In addition, Article 254 which obliged the acquirer of a controlling shareholder to effect any purchase of minority shareholdings under the same conditions as those offered on acquiring the majority shareholder, was revoked.¹⁰

This suppression of rights further prejudiced the transparency and liquidity of the Brazilian stock market, exposing the minority shareholder to greater risk of expropriation of investments arising out of the extended powers granted to controlling shareholder.

Bearing in mind that the Brazilian privatization program is now at a relatively advanced stage and furthermore that globalization has increased the competitiveness of international financial markets, there is an urgent need for fresh reform of the LSA, in order to correct its defects particularly in relation to the protection of minority shareholders.

¹⁰ It seems that the underlying cause of this reform was the privatization of the telecommunications company Sistema Telebras. The Federal Government needed to split Telebras into 12 companies in order to maximize the selling price and considerable minority shareholder opposition was anticipated. The Federal Government did not have the necessary funds to reimburse dissident shareholders, nor did it wish the liquidity of the sale of its shareholding to be reduced by the requirement that the purchaser also buy the shares of non-dissident shareholders. It therefore amended the law, revoking the minority shareholders' rights, as set out above.

V.2- Legislative Proposal - Amendment of the LSA

The Brazilian National Congress is currently considering a Draft Law of Reform (Projeto de Lei) of the LSA (this draft substituted an earlier proposed reform (Projeto de Lei nº 3.115 de 1997 ¹¹). The main objective of the proposed reform is to widen the protection afforded to minority shareholders thus improving the corporate governance of Brazilian companies.

The Draft Reform seeks to correct the defects in the current law, which, as described above, have led to poor corporate governance and hampered the growth of the Brazilian stock market. The principal changes are as follows:

1. a reduction in the number of non-voting shares issued by a company, under the proposed new law only $\frac{1}{2}$ (50%) of all shares issued may be non-voting, as opposed to $\frac{2}{3}$ under the present legislation;
2. re-introduction of the right of withdrawal in cases of company division, alteration to company objects, reduction in dividend, or proposed participation by the company in a group of corporations;
3. the re-establishment of compulsory share offer in the event of a controlling shareholder giving up control. A potential transferee of a controlling shareholder

¹¹ The Brazilian House of Representatives approved the draft by 374 to 30, with some amendments, on 28th March 2001. Approval of the federal Senate is required before the draft becomes law.

can if at the same time making a public offer of purchase of minority shareholders¹²;

4. alteration of the suppression of voting rights of preference shares which have priority in terms of reimbursement; under the new law these shares shall bear the right to dividends, and the shareholder shall be able to transfer them on the same terms and conditions as the transfer of voting rights (as set out above);
5. statutory provision for the possible resolution by arbitration of disputes between minority and controlling shareholder or between shareholders and the company;
6. minority shareholders in publicly held corporations who hold (i) 15% or more of all voting shares; and (ii) non-voting and/or restricted vote preference shares which make up at least 10% of the total share capital shall have, the right to elect two members (each) of the Board of Directors (which is made up of at least two members) and her/his substitute;
7. the controlling shareholder shall lose the right to elect a majority of members of the Audit Committee (which is made up of at least three members) and minority shareholders who (i) hold 10% or more of the total number of voting shares ;and (ii) 10% or more of non-voting or restricted vote preference shares , shall have

¹² The House of Representatives, on 28th March 2001 specified that such minority shareholdings are to be acquired for at least 80% of the price paid for a voting share which forms part of the controlling shareholder

the right to elect and dismiss one member of the Audit Committee and her/his substitute ¹³; and

8. the CVM shall have greater powers to intervene in the event of a conflict of interests between shareholders. Similarly to the provisions of BOVESPA's New Market rules (see below), companies may be classified according to the class and type of share traded, and, under the new legislation, the CVM can specify norms to be observed in each category.

Such legislative reform should considerably improve the quality of corporate governance in Brazil and the increase in protection afforded to smaller and medium investors should be an incentive to greater investment.

Of course, the reform depends on the approval of the National Congress which means that several, often diverging, interests will be considered and taken into account in what is likely to be a lengthy and intricate process.

It is to be hoped that the legislators are aware of the urgency of the reform so as to enable the Brazilian stock market to become more competitive in the international arena.

¹³ This provision was modified by the House of Representatives and now reads as follows : " (a) the holders of non-voting or restricted vote preference shares may, in conjunction with holders of ordinary shares (common stock) (with the exception of the controlling shareholder, elect one member and his substitute; (b) controlling shareholder shall have the right to elect one member and his substitute ; (iii) the third member and his substitute shall be elected by agreement between the shareholders referred to in a an b above, each group nominating a candidate for election by general assembly. In the absence of consensus, the assembly shall elect members on the basis of one share one vote, regardless of the class or type of share ."

VI- The New Market (BOVESPA)

The São Paulo Stock Market (Bolsa de Valores de São Paulo - BOVESPA), moves all of Brazil's listed stock. In view of the urgent need to improve corporate governance, and the lengthy process of legal reform, as well as the huge increase in launches by Brazilian companies of ADRs in the United States, it established in late 2000 the so-called "New Market."

The "New Market" – inspired by the German *Newer Markt* - is a segment of the Brazilian stock market which registers and trades in the stock of companies who adopt certain specified corporate governance and disclosure practices over and above those required by Brazilian legislation.

The "New Market" presupposes that the value and liquidity of the shares in question are positively influenced by greater safeguards offered to shareholders in terms of rights and quality of information provided by the company.

In order to enter onto the "New Market" a company needs to adhere to a set of rules collectively known as 'Good Corporate Governance Practice', and which are considerably stricter than those set out in applicable Brazilian law.

These rules, which are set out in the Listing Regulations (Regulamento de Listagem), extend shareholder rights, and seek to improve the quality of information provided by companies. They further establish that disputes be resolved by an Arbitration Tribunal,

which offers investors the security of a more flexible and specialized form of dispute settlement.

The principal innovation of the “New Market”, *vis a vis* legislation, is the prohibition of the issue of preferred shares¹⁴. There are several other developments. A company wishing to trade on the “New Market” must comply with the following requirements, in addition to those already established in law:

- ◆ Public share issues using mechanisms which favor dispersal of capital;
- ◆ maintenance in circulation of shares representing at least 25% of the capital;
- ◆ The provision to all shareholders of equal conditions regarding sale of controlling shareholder (*tag along*) whereby minority shareholders can join in a sale of the controlling shareholder, selling their shares under the same terms and conditions as the controlling shareholder;
- ◆ The establishment of a unified term of 1 (one) year for the whole of the Board of Directors;
- ◆ Disclosure of the Annual Financial Statement in accordance with the norms established by the US GAAP (United States Generally Accepted Accounting Principles) or IASC GAAP (International Accounting Standards Committee’s Generally Accepted Accounting Principles)¹⁵;

¹⁴ “Merely having the share capital made up of ordinary (common) shares only is not sufficient to guarantee Brazilian publicly held corporations the differential. Although this is widely seen as one of the most important aspects of the defense of minority interests, voting rights have little influence share price”. (Gazeta Mercantil, de 22 a 25.12.00, pág. C-1).

¹⁵ “The adoption of high quality international accounting and auditing standards by the corporate sector directly impact transparency and disclosure by the corporation to shareholders, creditors and other stakeholders.” Magdi R. Iskander and Nadereh Chamlou, (above), page 166.

- ◆ The introduction of improvements in information to be provided quarterly, including meeting requirements as to consolidation and special revision of financial statements;
- ◆ The necessity of offering up all the shares in circulation, at their economic value in the event of the company ceasing to be listed or the cancellation of its trading registration on the 'New Market'; and
- ◆ Compliance with rules as to disclosure regarding share issues determined by controlling shareholder and/or company administrators.

Some of these requirements must be approved by General Meeting of the company and expressly provided for in the company's bylaws.

The 'New Market' has opened up development opportunities in the Brazilian stock market, and offers companies the possibility of raising capital at competitive costs, while at the same time offering investors a more secure opportunity for obtaining long term investment.

If the reform of the LSA, as approved on 28th March 2001 by the House of Representatives, is given the seal of the Federal Senate, and becomes law, the CVM shall have the power to classify open trading companies in accordance with the class and type of share issued and traded by the same. The CVM may further establish the norms to be followed in respect of each category of company (item 8, Chapter V.2, above).

This classification procedure is similar to BOVESPA "New Market" rules, and it is to be hoped that both organs cooperate with each other so as to ensure the development of a transparent, cohesive and liquid market. In other words, it is to be hoped that if the powers

referred to are in fact conferred upon the CVM, they are not used in a manner which is in any way detrimental to the efforts made by BOVESPA to develop the Brazilian stock market.

VII- Raising capital in the Brazilian Stock Market and through American Depositary Receipts – ADRs

VII.1- American Depositary Receipts - ADRs

“Depositary Receipts (DRs), which include ADRs (American Depositary Receipts), GDRs (Global Depositary Receipts) EuroDRs (Euro Depositary Receipts) and NYSSs (New York Shares), are negotiable U.S. securities that generally represent a non-U.S. company’s publicly traded equity. Although typically denominated in U.S. dollars, depositary receipts can also be denominated in Euros. Depositary receipts are eligible to trade on all U.S. stock exchanges as well on many European stock exchanges.”¹⁶

An ADR therefore, is a type of DR, tradable on the American capital market, which confers on its holder rights which correspond to a certain number of shares in a company which is not domiciled in the United States.¹⁷

The following are involved in the trading process of ADRs 1) an ADR deposit bank in the US, 2) a custodian bank in the country of issue of the shares, which performs functions similar to those of a/the deposit bank 3) the entity (company) which issues the shares, 4)

¹⁶ BNY Home Page, “Global Equity Investing - Depositary Receipts Services”, page 1, The Bank of New York Company, Inc., 1997, rev. December, 1999.

¹⁷ “ADRs are share certificates, issued by North American banks, which enable companies not based in the US to raise funds in the US capital market.” Fábio Ulhoa Coelho, Curso de Direito Comercial, Volume 2, page 154, Editora Saraiva 1999.

investors 5) the Securities Exchange Commission - SEC, the American regulatory body, with which ADRs are registered.

Created in 1927 by the J.P. Morgan Bank, ADRs currently exist in two forms: unsponsored and sponsored. There is also the so-called 144-A issue, via which a company can raise capital from US institutional investors without being registered with the SEC, its shares not being traded on the stock market or over the counter and tend to be less liquid.

The issue of unsponsored ADRs involves various banks. Such banks, which are based in the US, issue certificates in accordance with market demand. Trading takes place over the counter. This model is regarded as being obsolete, and no certificates are currently being issued. The main reasons for its decline are the lack of effective control, for example, there is usually no formal contract between the banks and companies which issue this type of ADR, and the high transaction and administrative costs involved.

Sponsored ADRs are issued by a single deposit bank which records and deals with all stages of the process in the US market (e.g. the orders placed, volumes traded, purchasers and vendors, etc). There are three levels of sponsored ADRs: I, II and III.

ADRs I and II do not constitute a primary issue of shares. The basic difference between them is that an ADR I is traded over the counter (OTC - Over the Counter Market), and therefore there is no requirement that company financial statements be adapted to American standards. ADRs II and III are listed on stock markets or electronic trading systems. The ADR III, in addition to being listed on the stock exchange, represents

a primary share issue, in other words the company raises funds from the US capital markets. As such, registration with the SEC of both the ADR III and the shares represented is necessary.

The issue of ADRs I and II are based on pre-existing shares, the trade in which is transferred from the market of the country of origin to the American market.

As ADR II shares are traded on the stock market, the SEC requires the making of full disclosure - in the form of a document written in English providing general information about the company, and financial/business statements covering the last five years, set out in accordance with US GAAP norms.

The issuing company is also obliged to publish periodical reports (also in English). Registration with an American stock market is a further pre-requisite to issue.

The ADR III is the only one which enables companies to launch new shares directly onto the American market (primary raising of capital). As with ADR II, all documentation required by the SEC must be presented.

The costs of an ADR III are higher (see diagram below), given that, being the only form of primary raising of capital, it is the only one which has to meet the stricter market and monitoring requirements. This operation is thus restricted to the larger corporations.

In addition to the three forms of ADRs, SEC Rule 144-A offers companies another form of access to the American market, via private offer of a sponsored ADR. This

program, which may be established in conjunction with an ADR I, enables the offering of ADRs to institutional American investors and other non-American investors (institutional or individual) , without the necessity for registration with the SEC.

Rule 144-A permits the re-sale of the ADRs to a limited group of institutional investors who own or have invested at least US\$ 100 million worth of stocks/securities. Such institution may be a bank, or any member of a group of investment companies which, as a whole, owns US\$ 100 in stocks/securities. The basic differences between the programs are set out in the table ¹⁸ below:

Type	ADR I	ADR II	ADR III	Rule 144-A
Issue	Secondary	Secondary	Primary	Primary
Trade	Over the counter	Stock market or Electronic System	Stock market or Electronic System	Institutional Investors+ than US\$100 million
Registration	ADRs	ADRs	ADRs/Shares represented	No registration with the SEC
Financial Statements	Country of Origin	US norms	US norms	US norms
Implementation Cost	Up to US\$ 25k*	Between US\$ 200-700k**	Max US\$ 1,000,000***	Max. US\$1,000,000
Maintenance Cost	Zero	US\$ 500-800k	US\$ 500-800k	Zero
Launch Time	8-12 weeks	4 - 6 months	6 - 12 months****	N.A.

- * It is not included the underwriting fee, because it is not required.
- ** Total cost which is included the underwriting fee.
- *** It is not included the underwriting fee.

¹⁸ Source: Neto, Vasco de Freitas Barcellos, "Programa ADR: Vale a Pena para Empresas Brasileiras?", Dissertation (Master's Degree) Pontificate Catholic University of Rio de Janeiro (PUC-RJ), 3rd March 1998.

**** If the company has already launched the ADR II, the time is reduced to 2–3 months.

'Inflow' and 'Flow-back' are two important facets of the ADR program covered by American legislation.

Flow-back is the right granted to an investor to convert her/his ADRs into shares in the company's original market, by surrendering the ADRs to the relevant US bank, and obtaining from the custodian institution in the company's home country a corresponding quantity of shares.

This, in practice, enables the investor to sell the shares in the market of origin, where, in theory at least, they should have greater liquidity. This mechanism brings the trade of ADRs within the scope of arbitrage between the American market and the market in the home country, thus avoiding major distortion in share prices and leading to greater stability for the shares.

Inflow is the process whereby an investor can purchase, in the country of origin, shares in a company which has an ADR program, and then surrender such shares to the custodian bank and obtain new ADRs issued by the deposit bank.

The SEC plays an important role in the issue of ADRs, being responsible for the application of the relevant legal provisions and monitoring and enforcing compliance.

American capital markets are also subject to regulation by the individual states where they are located. It is therefore important for the issuer of an ADR to be aware of the specific legislation of the particular state concerned. Many states offer exemptions to companies which are already listed with American stock markets.

VII.2- The demand for ADRs.

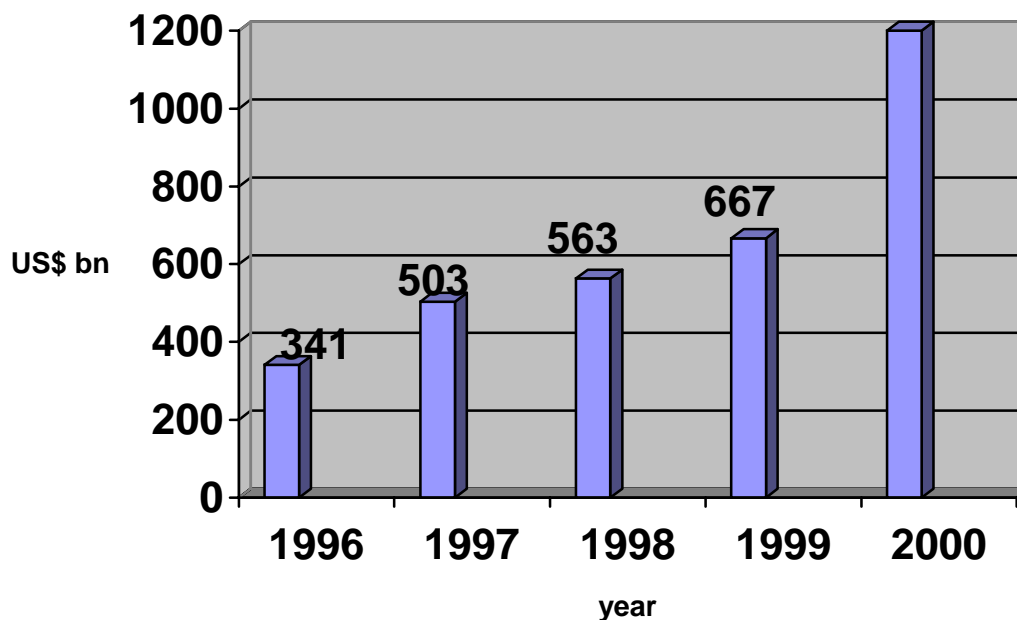
The demand for ADRs is growing fast annually, as investors continue to seek global diversification in their portfolios. American investors who wish to invest outside the U.S. prefer to utilize ADRs, because of their enhanced liquidity, cost effectiveness and convenience.

In fact, ADRs reduce costs for investors buying foreign stocks. If they buy shares directly in foreign companies, they have to pay custodians to enter the frame's transaction which substantially increases the costs involved.

A further advantage for both individual and institutional investors seeking to diversify their portfolios, is that ADRs considerably reduce the risks of investing abroad because they are regulated by US norms.

The ADR market set a number of records in 2000. Trading volume in ADRs on U.S. exchanges reached US\$ 1.2 trillion on 29 billion shares traded, almost double the 1999 figure of US\$ 667 billion and an increase of roughly 1,500% in ten years. As can be seen from the graph below, the ADR market has really taken off in the last few years.

Annual dollar volume of listed depositary receipt programmes (\$ bn)



“Capital raisings using ADRs also set a record in 2000. Companies and governments from 32 countries raised more than US\$ 29 billion, a 32% increase over 1999, through 115 depositary receipt offerings in the US and European markets. Companies from the telecommunications and technology industries¹⁹ raised the majority of the new capital.”²⁰

This huge increase in the demand for ADRs is also a natural consequence of the need of non-US, internationally focused companies to become more visible in the global market. There is therefore a convergence of the investment demands of American investors and the companies desire to be part of a market which has tremendous liquidity, transparency and visibility.

¹⁹ Both of which are depressed in 2001.

²⁰ in “The ADR Investor”, The Bank of New York, Inc. (BNY Home Page), page 1, February 2001.

VII.3- ADRs X BOVESPA

As previously mentioned, investors tend to look for facility of access, liquidity and transparency when they invest their money. In Brazil, despite BOVESPA's recent New Market innovation and the proposed legislative reform, transparency in general remains inadequate, due to the insufficient protection afforded to minority shareholders, which reflects the poor quality of corporate governance .

The comparatively low liquidity of Brazilian shares since the early 1990's has resulted in an increasing migration of capital to international markets, in particular as a result of the ease of access to the American market afforded by the launch of ADRs by Brazilian companies.

The fragility of the Brazilian share market is clearly demonstrated in its average daily turnover of approximately US\$ 150 to 250 million ²¹, compared to the American average of about US\$ 60 billion. ²²

The inadequate liquidity of Brazilian shares is, to a large extent, due to the low level of protection offered to minority shareholders, and the lack of transparency of Brazilian corporations, in other words, poor corporate governance. Excessive taxation levels aggravated by the imposition of the CPMF - Contribuição Provisória sobre Movimentação Financeira (tax on the movement of money) are also factors.

²¹ Exchange rate of US\$ 1.00=R\$2,00.

²² Source: BOVESPA, "O Mercado de Capitais: Sua Importância para o Desenvolvimento e os Entraves com que se Defronta no Brasil", a study by Tendências - Consultoria Integrada, July 2000

The CPMF, at a rate of 0.38%, or 38 base points, compares unfavorably with investment funds in Europe and the USA where administration charges of 15 basis points (0.15%) are levied, and a eurobond transaction on the secondary market costs 10 basis points (0.10%).²²

For example, the cost of trading 1,000 ADRs in New York is approximately US\$ 80²¹ (the equivalent of 1,000 TELEBRAS shares), whereas the cost in BOVESPA reaches US\$ 400²². This level of taxation, (it should be borne in mind that these figures do not include various additional taxes levied) contributes significantly to the continuing flight of capital and the weakening of the Brazilian capital markets which are simply unable to compete in the international arena.

As a result, many Brazilian blue-chip companies which have the financial capacity to enlist on the New York Stock Exchange (NYSE) are leaving BOVESPA and migrating to the American market.

These companies are using the launch of ADRs on the American markets as an alternative to domestic capitalization. Over the last 12 months, “up to the 25th January 2001, 47% of the stock of Brazilian companies listed in New York was made up of ADRs, while 53% of the stock was traded on the BOVESPA”,²³ as can be seen in the diagram in Annex 1.

²³ “ADRs esvaziam a BOVESPA”, Nanna Pretto, Sueli Vital, P-News, 01.29.2001

Around 64 Brazilian companies have already launched ADRs in the US, with PETROBRAS being the clear leader. In January 2001 about 70% of its stock was in the form of ADRs. TELEMAR, one of the highest liquidity companies on the BOVESPA, traded 43% of its stock in the form of ADRs over the last 12 months.²³

The CVM approved 89 issues of ADR's over the same period, the issues being as follows: ADRs I = 53, ADRs II = 22, ADRs III = 7 e 144-A = 7²⁴. Approximately 85% (ADRs I e II) were secondary share issues. The remaining 15% (ADR III e 144-A) reflect capital increases by way of primary share issues by Brazilian companies on the American market.²⁵

The performance of a Brazilian company's ADR on a foreign market has a direct influence on the price of the company's shares on the home market. In other words, if there is a strong increase in demand in the US for the ADRs of a given Brazilian company, the value of its ADRs rise, positively influencing the price of the company's shares on the Brazilian market.

The price of an ADR normally corresponds to the price of a related share in the issuing company's home country, with exchange rates and transaction costs being taken into account. In the event of an investor selling a large quantity of ADRs in the US,

²⁴ CVM, "Programas de DR Aprovados", as of 2nd April 2001.

²⁵ The figures refer to the number of ADR issues in the US (89), not the value of such issues.

however, the price is fixed in accordance with the conditions of the American market, opening up the possibility of arbitrage.

In an arbitrage, an investor may acquire an ADR for a lower price in the US and sell it at a higher price in Brazil (or vice versa). Arbitrage requires considerable skill and agility on behalf of the broker, and in practice only large scale investors are able to take advantage of it.

VIII- Conclusion

The capital market, in particular the stock market, is a means of spreading the risk of investment while stimulating the economic development of a country. More specifically, the stock market stimulates the democratization and socialization of capital, opening up companies' share capital to small and medium size investors who apply their money through the services of pension and or mutual funds.

The stock market is a long term investment alternative for individual or institutional investors. It also contributes to increased company efficiency, in the sense that the company, when offering shares to a large number of investors, is obliged to provide them with detailed information about its operation and management practices. The investors, in turn, having analyzed the information, frequently make suggestions for improvement which contribute to the growth of the company.

Globalization, and in particular the advance in information technology (telecommunications, internet etc.) has reduced the demand for intermediation in market

operations and has contributed significantly to the increased importance of the capital markets.

This process has, in addition to reducing costs, led to the market being able to process a larger number of investors and greater volume of transactions, thereby facilitating access to the market and increasing liquidity.

On the other hand, globalization has increased competition between world markets, and the inefficiency of the stock markets of developing countries has resulted in large scale migration of capital and/or operations to markets which are more visible on the global stage, more transparent and offer greater liquidity.

Investors generally want to place their money in markets which guarantee easier access, greater liquidity and transparency, and adequate protection against expropriation of their assets. Equally, companies are more easily able to raise capital in markets where there is greater investor demand, in other words, the more liquid markets which are more visible in global terms.

Such markets are, in general, to be found in developed countries, and in particular in the US (NYSE, NASDAQ and AMEX). These markets are attracting investors and companies from around the globe.

This migration is a natural consequence of globalization, especially for international (export) companies which need the maximum possible visibility abroad.

Not surprisingly, the Brazilian stock market, given the low quality of corporate governance in the country, the difficulty of access, poor transparency and inadequate liquidity, is suffering from the effects of competition with the international markets.

As a result, although the Brazilian economy ranks among the 10 largest in the world, the total value of company stocks traded on the stock market, when analyzed in terms of the GDP is 27.9%, placing Brazil in 28th position behind such countries as Mexico (31,7%), Zimbabwe (32,5%), India (37,9%) and all the developed countries. If the criterion of total volume handled related to GDP is applied, Brazil occupies the 21st position (15,3%).²⁶

The end result of these factors is that the largest Brazilian companies, which have the greatest liquidity, are raising capital through the launch of ADRs on the American market, causing an outflow of liquidity from the Brazilian market, leaving it with a reduced volume of trade concentrated in a few companies, nearly half the stock of Brazilian blue-chip companies being traded in the US (see chapter VII.3 above).

The urgent adoption of following measures is therefore imperative:

- (i) approval of the legislation reforming the LSA (Lei das Sociedades por Ações) currently under consideration by Congress;
- (ii) the adoption by publicly held corporations of the practices established by the 'New Market' launched by the BOVESPA, and adoption by the CVM of

²⁶ World Development Indicators 1999 (World Bank), rankings based on statistics gathered between 1994 and 1996.

measures consistent with the criteria used in the 'New Market' relating to the classification of open companies according to class and type of share issued and the norms to be applied to each category;

- (iii) tax reform, in particular the abolition of the CPMF, at least in relation to the trading of shares, without prejudice to any proposed tax cuts in respect of industrial/commercial production; and
- (iv) joint efforts by the federal government, public and private institutions and the judiciary, in other words, all agencies related to the Brazilian capital market, to increase its competitiveness vis a vis the more developed international markets and to foster its development, which is so essential for the economic progress of the country.

ANNEX 1

		Securities Traded in a day	Averaged of Securities Traded			Last Trade
			Month	Year	12 Months	
Ambev ADR	USA	2.548.000	6.495.880	6.495.880	6.081.920	01-25-2001
Ballast: PN Shares	BR	6.290.000	13.714.118	13.714.118	17.687.173	01-24-2001
Ticler ADR: ABV	USA/USA + BR	29%	32%	32%	26%	
Aracruz ADR	USA	744.000	2.591.530	2.591.530	2.109.950	01-25-2001
Ballast: PNB Shares	BR	716.000	1.169.176	1.169.176	906.610	01-24-2001
Ticler ADR: ARA	USA/USA + BR	51%	69%	69%	70%	
Brasil T Par ADR	USA	434.500	930.380	930.380	859.585	01-25-2001
Ballast: PN Shares	BR	1.718.300	975.706	975.706	799.514	01-24-2001
Ticler ADR: BRP	USA/USA + BR	20%	49%	49%	52%	
Copel ADR	USA	451.800	352.441	352.441	239.264	01-25-2001
Ballast: PNB Shares	BR	468.300	358.835	358.835	265.658	01-24-2001
Ticler ADR: ELP	USA/USA + BR	49%	50%	50%	47%	
Copene ADR	USA	55	309	309	401	01-25-2001
Ballast: PN Shares	BR	2.470	2.952	2.952	1.955	01-24-2001
Ticler ADR: PNE	USA/USA + BR	2%	9%	9%	17%	
Embraer ADR	USA	313.400	407.894	407.894	0	01-25-2001
Ballast: PN Shares	BR	550.700	411.629	411.629	390.103	01-24-2001
Ticler ADR: ERJ	USA/USA + BR	36%	50%	50%		
Embratel ADR	USA	779.700	954.118	954.118	901.436	01-25-2001
Ballast: PN Shares	BR	1.537.700	779.971	779.971	544.383	01-24-2001
Ticler ADR: EMT	USA/USA + BR	34%	55%	55%	62%	
Gerdaul ADR	USA	20.200	19.263	19.263	19.901	01-25-2001
Ballast: PN Shares	BR	72.100	57.812	57.812	60.289	01-24-2001
Ticler ADR: GGB	USA/USA + BR	22%	25%	25%	25%	
Globo Cabo ADR	USA	608	3.073	3.073	5.279	01-25-2001
Ballast: PN Shares	BR	6.905	11.270	11.270	11.936	01-24-2001
Ticler ADR: GLOBV	USA/USA + BR	8%	21%	21%	31%	
Pão de Açúcar ADR	USA	231.300	101.900	101.900	104.821	01-25-2001
Ballast: PN Shares	BR	19.350	25.841	25.841	38.341	01-24-2001
Ticler ADR: CBD	USA/USA + BR	92%	80%	80%	73%	
Petrobrás ADRO	USA	1.680.800	1.026.771	1.026.771	0	01-25-2001
Ballast: ON Shares	BR	676.400	452.547	452.547	501.566	01-24-2001
Ticler ADR: PBR	USA/USA + BR	71%	69%	69%		
Sid Nacional ADR	USA	56.800	41.775	41.775	49.068	01-25-2001
Ballast: PN Shares	BR	193.600	137.635	137.635	113.453	01-24-2001
Ticler ADR: SID	USA/USA + BR	23%	23%	23%	30%	
Tele Celular Sul ADR	USA	411.000	874.820	874.820	810.770	01-25-2001
Ballast: PN Shares	BR	1.840.700	904.375	904.375	605.953	01-24-2001
Ticler ADR: TSU	USA/USA + BR	18%	49%	49%	57%	
Tele Centroeste C ADR	USA	1.700.400	961.641	961.641	790.659	01-25-2001
Ballast: PN Shares	BR	2.053.100	817.882	817.882	668.545	01-24-2001
Ticler ADR: TRO	USA/USA + BR	45%	54%	54%	54%	

Tele Leste Cel C ADR	USA	195.000	557.050	557.050	597.850	01-25-2001
Ballast: PN Shares	BR	5.632.400	1.224.647	1.224.647	1.086.596	01-24-2001
Ticler ADR: TBE	USA/USA + BR	3%	31%	31%	35%	
Tele Ne Cel ADR	USA	134.000	980.000	980.000	700.700	01-25-2001
Ballast: PN Shares	BR	908.200	848.129	848.129	543.655	01-24-2001
Ticler ADR: TND	USA/USA + BR	13%	54%	54%	56%	
Tele Norte Cel ADR	USA	75.000	591.200	591.200	566.800	01-25-2001
Ballast: PN Shares	BR	2.822.800	752.888	752.888	451.424	01-24-2001
Ticler ADR: TCN	USA/USA + BR	3%	44%	44%	56%	
Tele Se Cel ADR	USA	240.000	644.100	644.100	9.737.500	01-25-2001
Ballast: PN Shares	BR	129.400	41.871	41.871	245.281	01-24-2001
Ticler ADR: TSD	USA/USA + BR	65%	94%	94%	98%	
Telebrás-RCTB ADR	USA	888.000	832.040	135	1.003.2	01-23-2001
Ballast: PN Shares	BR	1.000	1.008	1.008	259.613	01-24-2001
Ticler ADR: RTB	USA/USA + BR	100%		100%		
Telemar ADR	USA	529.800	1.662.000	1.662.000	948.248	01-25-2001
Ballast: PN Shares	BR	1.185.200	1.769.518	1.769.518	1.260.851	01-24-2001
Ticler ADR: TNE	USA/USA + BR	31%		48%	43%	
Telemig C. Part. ADR	USA	2.398.000	1.950.580	1.950.580	853.700	01-25-2001
Ballast: PN Shares	BR	1.294.500	1.189.771	1.189.771	463.188	01-24-2001
Ticler ADR: TMB	USA/USA + BR	55%	62%	62%	65%	
Telesp C. Part. ADR	USA	2.282.750	1.596.045	1.596.045		01-25-2001
Ballast: PN Shares	BR	5.017.800	1.263.753	1.263.753	633.140	01-24-2001
Ticler ADR: TCP	USA/USA + BR	31%	56%	56%		
Telesp Operac. ADR	USA	36.300	40.518	40.518	1.069.963	01-25-2001
Ballast: PN Shares	BR	232.800	103.088	103.088	681.066	01-24-2001
Ticler ADR: TSP	USA/USA + BR	13%	28%	28%	61%	
Ultrapar ADR	USA	1.200	21.731	21.731	27.603	01-25-2001
Ballast: PN Shares	BR	41.000	27.312	27.312	24.324	01-24-2001
Ticler ADR: UGP	USA/USA + BR	3%	44%	44%	53%	
Unibanco ADR	USA	97.250	92.715	92.715	123.639	01-25-2001
Ballast: PN Shares	BR	900	9.418	9.418	8.235	01-24-2001
Ticler ADR: UBB	USA/USA + BR	99%	91%	91%	94%	
Vale do Rio Doce ADR	USA	84.900	148.788	148.788		01-25-2001
Ballast: PN Shares	BR	462.700	340.782	340.782	382.836	01-24-2001
Ticler ADR: RIOPR	USA/USA + BR	16%	30%	30%		
Votorantin C P ADR	USA	46.000	37.318	37.318		01-25-2001
Ballast: PN Shares	BR	64.900	63.235	63.235	36.823	01-24-2001
Ticler ADR: VCP	USA/USA + BR	41%	37%	37%		
TOTAL	USA	16.380.763	23.916.880	23.916.880	27.602.191	
	BR	34.569.225	27.455.529	27.455.529	28.672.512	
	USA/USA + BR	32%	47%	47%	49%	

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