



CFA Society  
Brazil

NEWSLETTER  
**2Q** 2016



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Mauro Miranda, CFA

Dear Fellow Members,

It is with great pleasure that I write to you today as President of the CFA Society Brazil for the 2016-2018 period. As a volunteer working with CFASB for the last six and a half years, I have had the opportunity to see it grow year after year, in every aspect: number of members, frequency of events, interactions with regulators, meetings with employers, jobs available for Charterholders... the list goes on and on. Although there is still a lot of work ahead of us, one thing is clear: there has never been a better time to be a member of our Society.

This past May, we hosted Paul Smith, CFA, CEO of CFA Institute, for a 5-day tour of Brazil that included the cities of São Paulo, Rio de Janeiro, and Brasília, with visits to the Central Bank, CVM, universities, and a speech during CFASB's first-ever Women in Investment Management Conference. Traveling with other representatives from CFA Institute, Paul Smith was able to discover firsthand what we are seeking to accomplish

at CFA Society Brazil this year and in the coming 3-5 years. We are delighted to count on his support for our initiatives and look forward to establishing an even closer partnership with CFA Institute's leadership in order to advance our common regional goals.

Our programming is reaching a record number this year, and the quality of the events just keeps improving. By year-end we will have hosted a total of 20 events, including Member Lunches, the Career Events, the Charter Ceremony, and our flagship Annual Conference, this year in its sixth edition. We are working hard to make these events happen not only in São Paulo, where traditionally most of our membership is located, but also in Rio de Janeiro, where a fifth of our members live and work. Expect more events in Rio de Janeiro (and other cities) as we continue to expand our programming activities and seek national integration with CFA Charterholders from different locations.

Speaking of Rio de Janeiro, I have made it a personal goal to establish a Test Center for the CFA Program in

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# “One thing is clear: there has never been a better time to be a member of our Society.”

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the city. Currently, candidates enrolled in the CFA Program from Rio de Janeiro (and all over Brazil) have to travel to São Paulo for both the June and December exams, which undoubtedly adds concerns (e.g. with travel arrangements) to an already stressful time, not to mention costs. We believe that these concerns and costs need to be minimized as much as possible, and for this reason, we are in talks with CFA Institute to make the Rio Test Center a reality in 2017.

If you live in São Paulo or Rio de Janeiro, you will probably notice quite soon that CFA Institute will be running a Brand Campaign in newspapers, magazines (both in print and online), and out-of-home media (airports, outdoors, and bus stops in the financial districts). Brazil was selected as one of 13 markets in the world where a significant awareness campaign for the CFA brand will run, alongside Germany, Australia, Hong Kong, and other important growth markets. Over the months of July and August you will see the familiar faces of Márcia Sadzevicius, CFA (UBS) and Luiz Ribeiro, CFA (Deutsche Asset Management) promoting the values behind the CFA Charter to a wide target audience—employers, investors, and potential candidates.

I am also pleased to announce that, with generous backing from CFA Institute, CFASB is taking large steps to consolidate its governance structure and its operational infrastructure. For the first time, we will have an office from where we will launch and coordinate all of our initiatives and activities. We have selected an address in the Faria Lima region in São Paulo, between the neighborhoods of Itaim Bibi and Vila Olímpia, and construction works will commence soon. Additionally, we will hire an Executive Director that will be dedicated to managing the office and other staff on a full-time basis, helping the Board run the Society's day-to-day activities.

All these new initiatives are being run in parallel with our other activities. We have increased our Advocacy and Institutional Relations efforts and, through the work of the members of the Advocacy Committee, we have begun to publish a series of Policy Briefs aimed at raising awareness about certain issues facing the financial and capital markets in Brazil. In the University Relations front, we are looking to have a record number of teams participating in the Research Challenge, with over 20 universities expected to take part in the competition. In terms of career and employment, we have Career Events planned for both São Paulo and Rio de Janeiro this coming September, with support from professional headhunters from The Options Group – an event that is highly sought-after by our membership.

As you can see, we at the Board have been very busy so far this year, and all this hard work will continue to be the norm as we move forward. The important thing is that we do it passionately and selflessly, in an effort to create increasingly more value for our members and for current and future professionals working in the Brazilian financial and capital markets.

These are exciting times for CFA Society Brazil and for its members. If you want to join us and help us build a better Society, do not hesitate to let us know.

Success!  
*Mauro Miranda, CFA*



Paul Smith, CFA

It was my pleasure to meet a number of CFA Society Brazil members last May during the Women in Investment Management conference in São Paulo and at two member luncheons in Rio de Janeiro and Brasilia. I came away from these events with charterholders, universities, regulators and several employers, with a great appreciation for CFA Society Brazil's range of activities and passionate membership. For those I was unable to meet, this column is yet another way I can connect with you and hopefully receive your feedback on the successes and challenges ahead for the advancement of the investment management profession in Brazil.

When I became President and CEO, it was important to me that Brazil become a key priority market for CFA Institute. We have selected only two priority markets in Latin America, the other is Mexico. You can rest assured that you have my 100% commitment. You have a wonderful Board that has my full support. I thank Sonia Villalobos for her fabulous contributions as past president and welcome Mauro Miranda who will serve our Brazilian members very well. I am particularly impressed by your team's ambition and how you have applied resources and attention to advocacy. Society volunteers have been thoughtfully organized, a plan put in place, and advocacy projects are making a difference. The monthly policy briefs for regulators are outstanding. Your approach is a blueprint for other societies.

It is an interesting time to be in Brazil. As is the case in many countries, politics are a crucial influence. Scandals in the business community have not helped

our cause but provide us with a golden opportunity to positively influence the future. If not now, when? Brazil is a large, young country, getting more and more prosperous on a sub-continent that is on the march. It is my sincere hope that Brazil has reached an inflection point and that the investment profession will truly flourish in the years to come. We must keep pace with our changing industry and evolve accordingly, ensuring industry relevance of our three credentialing programs. We believe in Brazil's future and our strategy is to support you by directing resources through CFA Society Brazil.

CFA Institute plans to increase the local brand advertising spend in Brazil through FY17. Local efforts will also be deployed in the Americas to reach private wealth management practitioners and to create greater employer demand throughout Latin America. The "A Difference That Matters" global brand campaign was launched in March 2016 to generate awareness and understanding of CFA Institute as the leading global advocate for the advancement of the investment profession. Wave 1 of this multi million dollar three-year investment rolled out in the United States, Canada, the United Kingdom, China, and India. In mid-July, a second wave of local campaigns launched in six new markets with Brazil being one. The aim of which is to build awareness of the CFA charter amongst your local constituents. My personal gratitude to Márcia Sadzevicius, CFA and Luiz Ribeiro, CFA, for serving as the local charterholder "faces" of the Brazilian campaign.

We are actively supporting the opening of a Society office in São Paulo, a test center in Rio, and continue to provide financial support for member education events. These are works in progress and your Board will keep you posted on any new developments.

The best way you can make a difference is by supporting your society. Volunteer, get engaged, help Brazil achieve its potential through a finance sector dedicated to putting clients' interests first. Through our collective actions in Brazil and in the rest of the world, we will change the culture and reputation of the profession.

We appreciate our partnership with CFA Society Brazil. I plan to visit you once a year and look forward to meeting you, hearing about your progress and how CFA Institute can continue to support your efforts.

As always, I welcome and encourage your feedback on each and every thing I've shared.

*Paul Smith, CFA  
President and CEO, CFA Institute*

# THE CFA

## SQUARE



Andrew T. Campbell, CFA

## Interview with Andrew T. Campbell, CFA

By Mauro Miranda, CFA

Andrew is the head of the Latin America Equity Research team at Credit Suisse and Latin America equity strategist, responsible for country and sector allocation recommendations for Brazil, Mexico, and other main markets in LatAm. He joined Credit Suisse in 2000.

### What prompted you to decide to pursue the CFA Charter?

I did my undergrad degree at the University of Washington (1992), but I majored in International Studies, so I wasn't a Finance or a Business major. I didn't have a lot of accounting or valuation classes. After graduating, I worked for a few years in New York at Bank of America in the corporate credit area. Then I went to University of Chicago's Business School (which they call Booth now) and graduated from the full-time MBA program in 1997. I started working full-time in equity research. My boss at the time, who was head of research at Societe Generale, was a CFA Charterholder and a big proponent of the CFA Program—its educational process, the society, etc. so he encouraged everybody to get involved. At that time, I had a few doubts about whether it made sense to do the CFA Program since I already had an MBA. After some research I realized the CFA Program was specialized for what we do. It is highly applicable and directly tailored to the whole investment management process.

### What did you get from the CFA Program that you did not get from your MBA?

The program is a kind of deep dive into some of the areas of the Body of Knowledge, especially valuation and different asset classes. It was a deeper concentration into a very specific topic. When you are doing an MBA, you also take classes about marketing and general management. You pick up information, which is good as an overall broadening experience, but in terms of a professional credential and preparation for investment management, either from sell-side or buy-side perspective, the CFA Program is the optimal preparation.

### When did you get your charter and how did you prepare for it?

I started when I was in New York. I took Level I in 1998 and I passed the first time. In 1999, I took Level II and also passed the first time. But in 2000, I took Level III and did not pass. After that I got transferred to Brazil and my life got somewhat thrown into chaos. I changed coverage sectors, I changed banks (I had been at DLJ in New York and they were acquired by Credit Suisse), started living in a new country, learning Portuguese, all of this. I took two years off from the Program, and when I went back to take Level III in 2003, I passed. During these years in between I felt like it was hanging over my head for an eternity. It was a big sacrifice. This is one of the things that we value most about the designation: there is no way to achieve it, even if you do it within three years, without making a big sacrifice, a big commitment. Maybe it was a good sign when I took Level III, that one of the cases had an "Andrew Campbell" in it – a boy who had inherited some money and you had to decide how to best invest it. I thought this was a good sign and, in fact, I passed!

### Did the CFA Charter help you differentiate yourself in the Marketplace?

In the sell-side, our work is very visible. We are not just making a recommendation for an internal committee that takes the decision. Our reports are published for the entire world to see. Having the CFA designation on our reports and on our business cards provides us with a lot of visibility vis-a-vis our clients. I do think the CFA designation provides an immediate endorsement, especially when meeting new

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“... in terms of a professional credential and preparation for investment management, either from sell-side or buy-side process, the CFA Program is the optimal preparation.”

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clients. It definitely helped when I was in an earlier stage of my career. And it is especially valuable for the credibility it brings.

**How do you see the development of the equity market in Brazil over the past decade and a half?**

There is a long way to go, of course. One thing is obvious: the progress is not linear. It is a bit of two steps forward, one step back. I compare the current time to when I first came to Brazil and it was my first two or three years here. It was not a popular time, professionally speaking, for people to come to Brazil. You had the Argentine crisis, Lula was elected in 2002, the BRL/USD went to 3.80 in 2003—it was a full-blown crisis even though the GDP growth was not as negative as it is now. For equity investments it was a very tough time. Liquidity was not great and we went through many years where there were no IPOs. Then something happened which was not fully expected: the boom in equity markets in 2005-2008. This boom came along with the Novo Mercado designation, a very important development after the legacy of the privatizations and the dual share classes that the government used in order to maximize proceeds from the privatizations. The Novo Mercado came as an interesting solution, or improvement, for investors at that time. What has happened is that, over the past 3 or 4 years, we have had a step back, not just in terms of performance, but some slippage as well, some blurring of the lines related to some of the progress that had been made on corporate governance. This step back has been followed by drying up of the capital markets activity, and with that, there have been very little new issuance. Now the research has been more focused on existing listed companies rather than the new companies. But the perspective I can bring from having lived through these cycles is that we know that all these phases are cyclical and the markets are coming back.

**How do you compare Brazilian and U.S. companies in terms of information disclosure?**

There is a lot of variability here. You have bigger Brazilian companies, which have become very good about their disclosure. Each year they build and improve

and that is clearly a priority for them. You have other companies, sometimes smaller and without the same staffing, that still have a ways to go. In the U.S., we have Regulation FD (Full Disclosure). Companies tend to be more rigid, in my experience, about the way they disclose information. For example, in the U.S., when a CFO goes to an investor event and says “we are reiterating our guidance”, this is often considered to be a material event by itself. The company will issue a press release saying that today they reiterated their guidance. Maybe in Brazil we do not have that same level. This is a complaint I hear from investors—they would like companies to improve on their disclosure policies, whether it is disclosure on how the quarter is developing or issues on strategy. Investors want to make sure that companies are adhering to the highest possible standards of full disclosure. So this would be an area that companies need to improve.

**Let’s talk about the current political and economic situation in Brazil. How do you and your foreign colleagues see this?**

We have had a huge equity rally but there has been huge move in the currency as well. This is one of the biggest challenges that a foreign investor faces, especially in emerging markets. The currency moves are often more important than the actual changes in the local indices. Brazil is one of the countries where returns are most influenced by currency, even more than other emerging markets. This puts foreign investors in a position of having to be not only equity investors, but also currency analysts. In general, there is a perception from the locals that there is still a lot of foreign money that can come into Brazil now that the impeachment process has been finalized and once there is tangible progress on the fiscal side, like the spending gap and social security reform. Currently there is a 9-10% nominal fiscal deficit and the gross debt/GDP ratio is going through the roof. If things stay on this course, then eventually there will be an unstable situation. At the end of the day, to get fixed income and sovereign yields lower (which will bring money over to the equity side), we need real tangible progress on the fiscal side. Local investors are positioned

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## “To be a good fundamental investor, however, there is no substitute for having a deep and broad analytical framework.”

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for this, while foreign investors are in stand-by mode to see how the next few months will go. They want to make sure that they are investing with solid fundamentals.

### **Your current role involves coverage of Latin American as a whole. What countries in the region can you identify as bright spots for equity investments?**

The two markets we are positive on are Mexico and Colombia. The Mexico story is fairly straightforward, with the economy growing consistently at 2-3%. There is a pretty consistent consumer story there, and very good domestic indicators. Credit growth is coming in stronger, and there is a very orthodox policy framework: inflation is kept very low, the fiscal deficit is much smaller than in Brazil, the Central Bank raises rates when necessary and, in a coordinated way, fiscal spending is cut. The other market that has been performing well this year and that we have been recommending is Colombia. We have had a more positive view on the oil price, and the Colombian market is very driven by oil. The recovery in oil price that we have had over the past 5-6 months has been very positive for the Colombian markets. At the same time, there is a more orthodox policy response by raising rates to keep inflation under control and defending the currency, and a pretty solid consumer story as well, with the economy still growing around 3% a year.

### **How do you see the potential impact of Brexit on global equity markets?**

A certain amount of it will depend on which flavor of Brexit we will get. It is pretty clear that the “Leave” camp advocated Brexit but had not thought a lot about what that exit would entail. It could be a “Brexit light”, for example, which means still maintaining a trade union but putting caps on immigration, without major change from an economic standpoint. Or it could be a “full Brexit”, where the UK would exit the single market and not have the same access to Europe as it has had. The issue with Brexit, and European growth more generally, is the potential for Brexit to generate a negative confidence shock. All you need is for those families that went out to dinner once a week to start going every two weeks. People who used to take a taxi once a week start taking public transportation – as a services-based economy, the concern is really on confidence. The expectation is that the UK

will go through a period of recession, that there will be somewhat of a drag in the next few months on European growth more generally, but that it should be fairly shallow. From a more global equity market standpoint, there should not be that much contamination to markets in the U.S., China, or Japan, unless there is a very aggressive exit with a very strong impact on confidence.

### **Back to the CFA Charter, how do you encourage professionals from the millennial generation working in your area to dedicate 1,000 hours to the CFA Program?**

It is true that the news flow is rapid fire and we increasingly have a society with a short attention span. It is a 24-hour news cycle and people are concerned with what will move the market today, with reactions coming from an almost instinctual or emotional basis. To be a good fundamental investor, however, there is no substitute for having a deep and broad analytical framework. If you do not have that framework, when the news is coming out and flashing on the screen and people are sending you messages on WhatsApp, then you will not have a proper way to assimilate and interpret the information. For fundamental investors, the CFA framework cannot be substituted. The process of doing a proper analysis at the fundamental level requires this investment in knowledge, both on a theoretical and on a practical level. We strongly encourage everybody in our research team to undertake the program. In terms of sourcing the real fundamental value of assets, the CFA process and designation are every bit as valuable. Even more so as people shift to a short-term, very reactive mindset. Increasingly, there are going to be opportunities for professionals who have done their homework and who know how to do the proper analysis. ■

On the week of April 11th, in the city of Chicago, USA, the CFA Institute hosted the Regional Finals and also the Global Final of the 10th edition of the Research Challenge. Nearly 1,000 people met at the Hilton Hotel, more precisely 106 university teams from 60 different countries (five of these from Latin America) and over 100 volunteers, which were mostly investment professionals from all over the world that acted as judges for the presentations.

The event was the largest ever in the history of the CFA Institute Research Challenge, and a special occasion to celebrate the tenth year of the competition. The exchange of cultures, experiences and best practices in the academic world was very exciting, not only for the hundreds of students from all over the globe, but for all of us that work in the finance industry. We were all motivated and proud to be helping educate the next generation of investment management professionals.

In the semi-finals session, the teams were randomly grouped according to their region in 21 different rooms, with five teams each, and simultaneously presented to a few judges. Each team had 10 minutes for their presentation followed by 10 minutes of question & answers. In this stage, the written report still counted for 50% of the total score. I was fortunate enough to be a judge in this stage and watched five outstanding presentations from Canadian and American students.

Later in the afternoon session, the 21 best teams competed in the regional finals, which were separated in four large rooms: Americas A, Americas B, EMEA (Europe/Middle East and Africa) and Asia Pacific. Unfortunately, the team from Brazil, FGV-SP, competing in the Americas region, did not pass to the final. I attended the EMEA Final and was very impressed by Politecnico de Milano team's performance, who presented on Diasorin, a billion dollar company in the molecular and immunology test industry, and the National Research University of Moscow, who analyzed one of Russia's largest retailer. In the end, the regional winners were Politecnico di Milano (Italy), University of Manila (Phillipines) University of Waterloo (Canada) and Georgia University (US).

The grand winner of the 10th CFA Institute Research Challenge was University of Waterloo's team, who analyzed and valued Canadian Tire Corp., a leading hardware and sports retailer in Canada. I believe the judges had a hard time in selecting the winner, as the four teams were remarkable. They knew their companies inside out, looked very confident and acted as professional equity analysts.

We congratulate the University of Waterloo and look forward to the launch of the 2016-2017 CFA Institute Research Challenge, with it's grand finale taking place on April 28, 2017 in the city of Prague, Czech Republic. The Brazilian local edition starts soon. Please visit the Research Challenge section on our website to check out the [participant kit](#) to see the rules and guidelines for our local competition.

## PAST EVENTS

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### April 13, 2016 | Private Equity Today

Brazil for the Brazilians?

Juliana Vargas, CFA, Partner at Bozano Capital, gave an overview of the Private Equity market in Brazil today at a lunch presentation at the restaurant Cantaloup.

### April 28, 2016 | The Brazilian Economy

A Macroeconomic Analysis

Dr. Mario Mesquita, PhD, Senior Partner and Institutional Relations Manager at Brasil Plural, presented his macroeconomics analysis of Brazil today at a Networking and Cocktail reception at Giuseppe Grill Leblon. This was our first event of the year in Rio de Janeiro.

### May 17, 2016 | Women in Investment Management

Improving Investor Outcomes Through Diversity

Paul Smith, CFA, CEO and President of CFA Institute opened this event, which focused on encouraging diversity in the investment management profession. The three speakers were Denise Pavarina, Executive Managing Director of Banco Bradesco S.A. And BRAM, Andrea Chamma, Vice chairman for Institutional relations in Brazil at Bank of America Merrill Lynch and Leah Bennett, CFA, CIC, Co-Chief Investment Officer at South Texas Money Management.

## UPCOMING EVENTS

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### July 21, 2016 | An Anatomy of Liquidity Risk?

12:30PM | Cantaloup Next Door | Rua Manuel Guedes, 444 | Itaim Bibi, SP

Sorina Zahan, PhD, partner and Chief Investment Officer at Core Capital Management gave a presentation on liquidity risk at a lunch event at the restaurant Cantaloup.

### August 24, 2016 | Venture Capital and Crowdfunding

Finding the Money

12:30PM | Cantaloup Next Door | Rua Manuel Guedes, 444 | Itaim Bibi, SP

Frederico Rizzo, Founder and CEO at Broota and Edson Rigonetti, Founding partner at Astella Investimentos will address the audience on venture capital and crowdfunding.

### September 01, 2016 | Career Event SP

Carreira, Futuro, Atitude

6:30PM | Cantaloup Next Door | Rua Manuel Guedes, 444 | Itaim Bibi, SP

Options Group's directors Bruno Supino and Patricia Claro will present on various topics including market trends and career advice in Sao Paulo.

### September 14, 2016 | Relative Values of Latin American Equity Markets

8:00AM | Bloomberg | Rua Leopoldo Couto de Magalhaes Jr, 700 | Itaim Bibi, SP

Andrew Campbell, CFA, Head of the Latin American Equity Research team at Credit Suisse will give an overview of the Latin American Equity Markets at a breakfast event held at Bloomberg's office in São Paulo.

### September 21, 2016 | Career Event RJ

Carreira, Futuro, Atitude

7:00PM | Giuseppe Grill Leblon | Av. Bartolomeu Mitre, 370 | Leblon, RJ

Options Group's directors Bruno Supino and Patricia Claro will present on various topics including market trends and career advice in Rio de Janeiro.

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You can find complete information about our events at: [www.cfasociety.org.br](http://www.cfasociety.org.br)

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### Comments or Suggestions?

Please send suggestions for events that would be of interest to you to [eventos@cfasociety.org.br](mailto:eventos@cfasociety.org.br)



In early April, BM&F BOVESPA announced the beginning of their process that aims to review the qualifying requirements for the development of enterprises in the Special Corporate Governance Segments. BM&F BOVESPA's proposal involves a sequence of workshops, public and private consultations with market experts, and dialogue with listed companies. On BM&F BOVESPA's website, market players can participate by answering an open questionnaire. CFA Society Brazil's Advocacy Committee members are currently contributing to this modification through public and private hearings.

Just as we announced in the previous newsletter, the Advocacy Committee, which coordinates all of CFASB's advocacy initiatives, started publishing Policy Briefs on January 2016. These publications aim to present our views about current topics in the Capital Markets (led by Ana Novaes, CFA), Institutional Investors (led by Daniel Celano, CFA) and the Future of Finance (led by Julio Cardozo, CFA). These articles are available for our members to read on CFASB's website and will be divulged to other relevant audiences as well, including regulators and financial-markets related associations. Our goal is to reinforce the CFA Program's brand recognition, emphasizing our ability to formulate highly qualified opinions in our areas of expertise, contributing to the consolidation of best practices in related areas. So far, the Advocacy Committee produced three policy briefs on Corporate Governance of State-Owned Enterprises in Brazil, Qualification Standards for Institutional Investment Managers and Second Generation ETFs in Brazil.

On April 13th-15th, Tony Tan, CFA Institute's Head of Global Society Advocacy Engagement and Mary Bobbitt, Society Relations in the Americas Manager, came to Brazil with the intent of visiting regulators and other local partners and important agents engaged in advocacy initiatives in Brazil. Tony and Mary, along with CFASB's advocacy committee visited the IBGC (Brazilian Institute of Corporate Governance), ANBIMA (the Association of Capital Markets Entities), CAF (Committee for Mergers and Acquisitions) and the CVM (Securities and Exchange Commission). One month later, on May 15th-18th, Paul Smith, president of the CFA Institute also came to Brazil during his first visit to Latin America. He visited regulators and self-regulators such as CVM, PREVIC and ANBIMA, along with the advocacy committee members, strengthening relationships with these important market participants.



The CFA Society Brazil board members understand and acknowledge that the Jobs Board is one of the most valuable tools for our members, and for that reason, we are constantly promoting it among employers, recruiters and human resources professionals. It is clear our efforts are paying off as we have received a considerable amount of new positions during the past few months, despite Brazil's current challenging economic condition. Feedback from employers has been very positive and ultimately, our goal is that the Jobs Board will be considered as the best approach to find qualified candidates within the financial community.

Furthermore, we would like to share that the second edition of the CFA Society Brazil Career Event will take place in the next few months. We have partnered with Options Group, which is a leading global executive search and strategic consulting firm. They specialize in financial services including capital markets, global markets, alternative investments, hedge funds, and private banking/wealth management. Options Group will be leading the presentation and will explore different themes ranging from career advice to an overview of the current financial industry job's market situation. Soon we will be sharing more details. Stay tuned!

On June 1st I took over as Treasurer of the CFA Society Brazil, CFASB. Having been President for the last two years, it has been a smooth transition. As CFA Charterholders that we all are, keeping the finances of the CFASB very neat and organized is just second nature for us.

The last three months, April to June, were busy ones. Besides our usual event and programming calendar, we had the pleasure of hosting Paul Smith, CFA, CEO of the CFA Institute, in his first visit to South America. To make the most of this opportunity, we organized a very busy agenda for the three days Paul stayed in Brazil, one day in Rio, one day in São Paulo and one day in Brasília. Besides lunches with the members of the CFASB, Paul met with regulators, partner universities, employers and the written media. Also, we had our first Women in Investment Management (WIM) Conference, where he made the Opening Remarks and our friend Leah Bennett, CFA, was one of the speakers.

All these events, which surely increased the awareness of the CFA Program in our country, were possible because of the financial support of the CFA Institute. The CFA Institute has a budget, called Project Funding, for supporting projects presented by the Societies. These projects should be able to increase the awareness of the CFA Program and CFA Charter. Prior to Paul's visit we applied for Project Funding, detailing all the expenses we expected to incur with events, traveling, the WIM Conference and others. Our Project Funding was approved and that has allowed the CFASB to make the most of Paul's visit without putting any strain on our finances.

We are very thankful for CFA Institute's support and we would also like to show our appreciation for everyone involved in preparing the Project Funding, which was not a minor feat!



# FEATURE ARTICLE

## Excessive Technicity as Transaction Costs in Brazil's Debt Market

Identifying obstacles to increasing volumes and liquidity

By Mauro Miranda, CFA

The last two decades saw an unprecedented growth in the debt capital markets in Brazil. Thanks to a large extent to the foundations provided by macroeconomic stabilization since the Plano Real was implemented in 1994, the local debt market became increasingly attractive to foreign investors. However, the larger transaction volume and the increased international attention put a spotlight on the difficulties still facing foreign investors when dealing with Brazilian debt instruments. Some of these complications are nothing but monsters of our own creation, having to do with trading practices and calculation conventions that bring an excessive technicity to our daily routines. Market institutions and participants would do well to do away with them.

One such practice is the trading of debt instruments by quoting yields or spreads, as opposed to quoting prices. At first, quoting a market using the yield or the spread of a debt instrument may sound just as efficient as providing an outright price. However, this is true for fixed-rate instruments. In Brazil, a large portion of the debt market (including 92% of the outstanding debentures volume) is linked to the interbank deposit (DI) rate, a floating rate that is reset daily. Quoting a market in yield or spread causes counterparties on a trade to compare calculations to match the day count, the DI futures curve, and the estimated forward rates—a process that is susceptible to errors and prone to misunderstandings.

Another widely known stumbling block in the Brazilian market is the difficulty in implementing the rounding and truncation rules that must be followed by practitioners when calculating interest and spread factors, forward rates, principal amounts (in the case of inflation-linked instruments), and other intermediate figures. For instance, interest rate factors must be calculated using 9 decimal places and rounded off, but the cumulative daily factors from the DI rate are found using 16 decimal places and must be truncated. Forward rates must be found without any treatment (rounding or truncating), but daily DI factors have to be calculated with 8 decimal places (not 9) and rounded off (not truncated).

While all these calculations are mathematically correct, their excessive technical features lead to mistakes and confusion.

Adding to the complexity of our market, especially in the eyes of foreign investors, is the lack of standardization in the debt instruments (not to mention the sheer number of available debt products). To take an example, corporate bonds issued in the U.S. market are usually issued with a fixed interest rate, semiannual interest payments, linear calculation of accrued interest between payment dates, and bullet principal payment. In Brazil, debentures can pay interest quarterly, semiannually, or annually (or in another frequency), interest rates are normally floating and can be a percentage of, or a spread over, the DI rate, and there might be a principal amortization schedule. While this variety allows for creativity and adaptation to the needs of issuers and some domestic investors, it might be detrimental to the development of our market when we factor in the need to draw interest from foreign investors.

These are only a few examples of features in the Brazilian debt market that are obstacles to its development and to the increase in volumes and liquidity. Recognizing that these features represent unnecessary transaction costs is only the first step. Regulators, industry associations, and thought leaders must work together to promote market practices that are more sensible and welcoming to investors, domestic and foreign alike.

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### RELATED READING:

Miranda, Mauro. “Monstros da Nossa Própria Criação: Tecnicidade Excessiva como Custo de Transação no Mercado de Crédito Privado no Brasil”. In: Troster, Roberto Luis and Dodl, Alessandra. *Sistema Financeiro Nacional: O Que Fazer? Propostas por Diferentes Lentes*. Forthcoming 2016.

On May 8-11th, the city of Montreal, Canada hosted the 69th CFA Annual Conference. It was the largest edition ever with 1.926 delegates present, representing 856 companies and 63 countries around the world.

Paul Smith, CFA, president and CEO of the CFA Institute was responsible for the opening remarks in which he highlighted the Institute’s mission to promote professional excellence and pointed out the continuous effort made towards increasing member value.

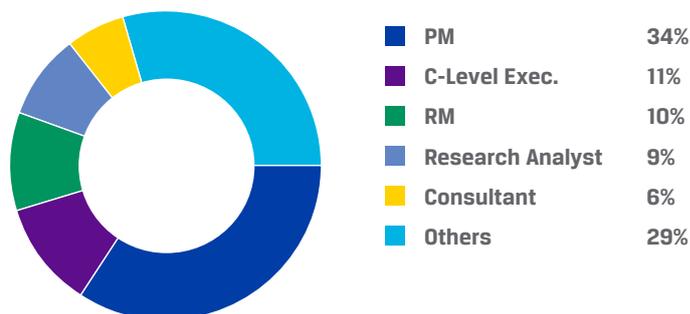
There were 48 speakers, each of which exposed market trends, explained the impacts of the incoming millennials generation, discussed technology and the role social media plays in present and future markets and spoke about a whole plethora of opportunities and issues in the investment industry as a whole.

The numerous sessions that took place in this event grouped around seven main topics:

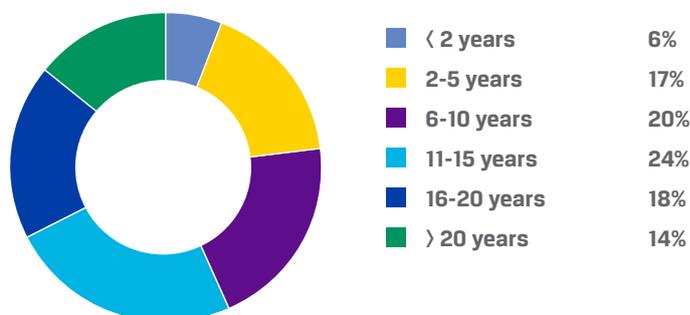
- Alternative Investments;
- Asset and Risk Allocation;
- Equity Investments;
- Fixed-Income Management;
- Policy and Practice;
- Private Wealth Management and;
- Standards, Ethics and Regulations

In regards to the conference demographics, the country with most representation was our host, Canada (46%), followed by the United States (34%) and South Africa (6%). Moreover, given our Women in Investment Management initiative (WIM), it is important to note that women accounted for 22% of the attendees.

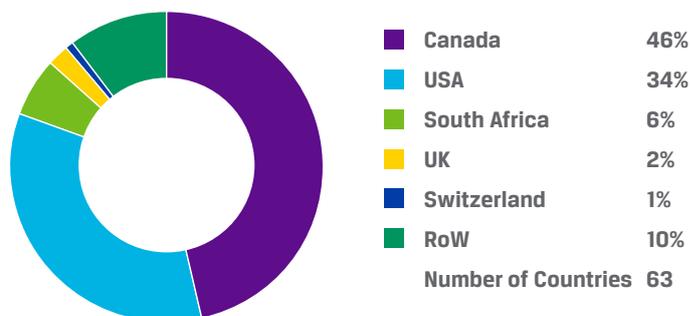
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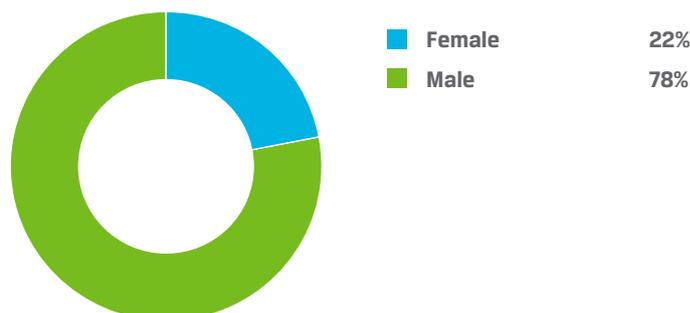
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