

FOREIGN SECURITIES ADVISORS TO BE ALLOWED TO OPERATE IN BRAZIL

The Brazilian Securities Commission (*Comissão de Valores Mobiliários – CVM*) recently submitted to public hearing a proposal to amend the rules on securities advisory services with the purpose of allowing foreign advisors to provide services to Brazilian investors. This potential change comes at the perfect time, as Brazilian investors are increasing their appetite for investments in overseas markets.

Currently, only advisors domiciled in Brazil may pursue the necessary authorization by CVM. The main proposed requirements are to demonstrate that the foreign advisor (i) is subject to regulation equivalent to the relevant Brazilian rule and (ii) is registered with and supervised by an authority recognized by CVM.

Two major reasons are behind the amendment proposed by CVM.

The first is that Brazilian investors are expanding their investment horizons due to the current economic scenario. The drop in Brazil's base interest rate triggered a capital movement that increased investments other than solely in fixed-income instruments. Such change had a positive effect on investments in foreign securities, allowing investors to diversify and hedge part of their portfolios against uncertainties related to the Brazilian economy and the volatility of the local currency. Investments in feeder funds dedicated to investing abroad, for example, are attracting more Brazilian investments in the last years, and have increased by approximately 30% since 2016.

The amendment therefore intends to give Brazilian investors access to professionals that tend to be able to provide more accurate advice on their local markets. It represents progress and it should facilitate Brazilian investment in foreign securities.

The second reason for the proposed amendment is aligned with a broader strategy of the Brazilian government. The current administration is focusing on having Brazil as a member of the Organization for Economic Cooperation and Development – OECD. This is part of an effort to recreate the basis for economic growth and enhance the benefits that should result from the reforms that are expected to be in place in the next few years. Brazil submitted its accession request to the OECD in 2017 and its acceptance as a member is actively awaited.

The amendment goes along with the Code of Liberalisation of Capital Movements of OECD,

which is a body of rules establishing that OECD members should progressively abolish restrictions on movements of capital for effective economic cooperation.

It also follows CVM's trend of opening up the Brazilian market to foreign service providers. For instance, foreign rating agencies and asset management companies have been allowed to act in Brazil, provided that certain requirements are met.

The softening of the requirement on securities advisory rules is expected to generate benefits for domestic investors and opportunities for foreign operators. It tends to create an environment that stimulates Brazilian investments in overseas markets, which is beneficial to Brazilian investors and foreign securities advisors, and demonstrates the intention of the Brazilian government to open the country economically.

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