

# Brazil Round 1



## Exchange Controls

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- Historically, Brazil had stringent exchange controls
  - **Severe limitations on foreign accounts and rights to hold foreign currency**
- Continual liberalization since 1990
- Previously two foreign exchange markets (floating and commercial) - now unified
- Brazilian Government retains the power to restrict foreign currency transactions if balance of payments difficulties

# Exchange Controls



- **Brazilian law confers on the Central Bank broad discretion to regulate the flow into and out of Brazil of domestic and foreign currency**
- **Following is very brief outline of selected provisions from applicable statutes and Central Bank regulations as currently in force**

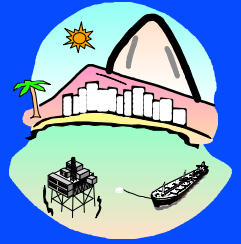


# Exchange Controls - CC5 Accounts



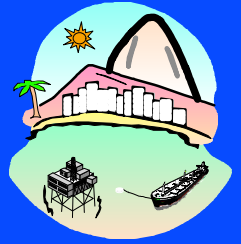
- **CC5 Accounts - *real*-denominated demand deposit accounts held by non-residents at authorized Brazilian banks**
- **Can be used to buy and sell foreign currency freely, subject to reporting to Central Bank**
- **Brazilian resident companies can trade with CC5 account holders to obtain foreign currency which can be freely invested and held abroad**
  - **No restriction on assets**

# Exchange Controls - Exports



- Exports of goods from Brazil require signature of foreign exchange contract regulated by Brazilian Central Bank
  - **Must be entered into with a financial institution authorized by the Central Bank**
- General Rule: value of the exported goods must be transferred to Brazil and converted into *reais*

# Exchange Controls - Exports



- Exchange contract may be signed up to 180 days before or after shipment
- Conversion of foreign currency into *reais* must be effected on the earlier of 180 days after shipment or 20 days after receipt of foreign currency
- Exporters may receive *reais* pursuant to the foreign exchange contract (under ACC model) or may obtain a line of credit from abroad and convert the borrowing to *reais*
- Exchange contract may be canceled or term extended in certain circumstances

# Exchange Controls - Imports



- **Import of Goods and Services**
  - **Payment for imported goods and services regulated by Central Bank**
  - **Foreign currency payments generally permitted upon presentation of supporting documents**
  - **Need foreign exchange agreement with approved financial institution**
  - **Need approval from Foreign Trade Secretariat (SECEX)**



# Exchange Controls - Royalties



- Royalties
  - **Payable in foreign currency, provided**
    - IP involved previously registered with National Institute of Industrial Property (INPI)
    - License agreement registered with Central Bank





# Exchange Controls - Import Financing



- **Import financing**
  - **Borrowings up to 360 days not subject to Central Bank approval**
  - **Borrowings over 360 days must be authorized by Central Bank**
    - **Process currently done electronically in a matter of days**



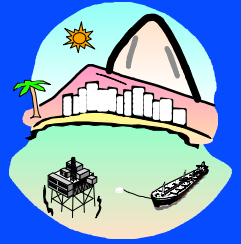
# Exchange Controls - General Financing Transactions



- Foreign loans subject to prior approval by Central Bank
- Loans must be registered with Central Bank within 30 days after remittance of borrowed funds to Brazil
- *Reais* freely convertible into foreign currency to service loan, including interest
  - **No withholding on interest on loans over 2 years**



# Exchange Controls - Dividends and Return of Capital



- Dividends
  - Dividends on foreign currency investments that have been registered with the Central Bank may be remitted abroad
  - Brazilian law provides for income tax withholding, but current rate is 0%
- Capital investments made in foreign currency may be repatriated (whether by way of reduction, sale or liquidation) to the extent that the investment has been registered with the Central Bank