

REGULATIONS OF INTEREST TO FOREIGN INVESTORS



CVM INSTRUCTION No. 404 OF FEBRUARY 13, 2004

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Provides for the simplified registration procedure and standard clauses and conditions to be adopted in deeds of issuance of debentures designed for trading on a special segment of stock exchanges or entities of the organized over-the-counter market.

THE CHAIRMAN OF THE SECURITIES COMMISSION (CVM) announces that the Board, in meeting on the date hereof, on the grounds of articles 8, I, and 18, II, of Law 6385 of December 7, 1976, and article 61, paragraph 3, of Law 6404 of December 15, 1976, has resolved to issue the following Instruction:

SCOPE AND PURPOSE

Article 1. This Instruction regulates the requisite clauses and conditions that must be established in deeds of issuance of debentures designed for trading on a special segment of stock exchanges or body of entities of the organized over-the-counter market and the adoption of the simplified registration procedure for public underwriting of such debentures.

Sole Paragraph. The purpose of this Instruction is to draft debentures with clauses that are easy to understand and apply and simple to perform, with a view to stimulating the development of a transparent and liquid market for private fixed-income securities. Its purpose is also to assure unrestricted access by investors to offers for the distribution of said debentures and to establish the guidelines for such market to enable publicly-held companies to manage their cash flow efficiently at any time, at the financial cost most in line with their creditworthiness as viewed by investors.

DEFINITION

Article 2. Standardized Debentures are those that:

- I. - adopt the standard deed under Exhibit I and, if they contain a remuneration (interest) clause, those provided for, as applicable, in Exhibits II, III, IV or V hereto;**
- II. - are accepted for trading on a special segment of a stock exchange or entity of the organized over-the-counter market that meets the requisites of article 6 hereof;**
- III. - have a financial institution appointed as Trustee of the debenture holders; and**
- IV. - are permanently handled by market formers.**

SIMPLIFIED REGISTRATION PROCEDURE

Article 3. The CVM may, at its discretion and always with regard for public interest, adequate information and investors protection, grant registration to the issuance of Standardized Debentures by a simplified analysis of the documents and information submitted, provided that the application for registration, cumulatively:

I. - contains a specific request for use of the simplified analysis procedure; and

II. - is supported by:

(a) all documents required for registration pursuant to the laws and regulations applicable to public underwritings;

(b) a statement signed by a stock exchange or entity of the organized over-the-counter market to the effect that the entire documentation regarding the issuance has been submitted and is in conformity with this Instruction and other applicable rules;

(c) a report prepared by a credit analysis agency operating in Brazil;

(d) evidence of acceptance of the Standardized Debentures on the stock exchange or entity of the organized over-the-counter market, which meets the requirements of article 6 hereof, conditioned solely to the granting of the public underwriting registration by CVM.

Sole Paragraph. The simplified analysis procedure mentioned in the main section of this article may only be followed by issuers that:

(a) have a current publicly-held company registration; and

(b) have publicly distributed shares, debentures or subscription warrants during a period of five (5) years prior to the date of filing the application for registration of Standardized Debenture underwriting.

Article 4. Granting of registration pursuant to article 3 shall be communicated by CVM to the applicant no later than five (5) business days after the date of filing of the application at CVM.

Sole Paragraph. In the event the requisites under article 3 have not been met or the request referred to in article 3, I, has not been accepted, CVM shall adopt the analysis time frames provided for in the regulations applying to the registration of public underwriting of securities, as from the date the fact is communicated to the issuer and to the leader institution.

PRIMARY DISTRIBUTION

Article 5. Registration for primary distribution of Standardized Debentures shall be granted for issuances with single series of for each serie, as applicable, with due regard for the following:

I. - primary distributions, which may be split into tranches of Standardized Debentures for a term of twenty-four (24) months as from the date of granting of registration by the CVM, shall be carried out solely on stock exchanges or organized over-the-counter market determined by the issuer, and shall in any event follow procedures that will enable the market price of the securities offered to be formed with transparency and full access by the investors;

II. - primary distributions shall be preceded by the publication of a Distribution Commencement Announcement, which shall provide at least for the offer of the first tranche of Standardized Debentures;

III. - primary distributions of the remaining tranches of the same series of Standardized Debentures shall be preceded, by at least one (1) business day, by specific notices published in the official newsletter of the stock exchange or organized over-the-counter market, which shall include, in addition to the information on the offered securities and offer procedures:

(a) a statement issued by the stock exchange or entity of the organized over-the-counter market that the issuance prospectus has been updated; and

(b) a list of places where copies of the updated prospectus may be obtained and of the

Internet web pages where it may be consulted, as well as the issuer's institutional web page for disclosure of information to debenture holders and to the market.

Paragraph 1. Updated prospectus for the offer of tranches of Standardized Debentures is the prospectus prepared when registration is granted with an additional supplement with its updated content, as well as the information and documents sent by the issuer to CVM in compliance with the rules on the registration of publicly-held companies.

Paragraph 2. The updating of the prospectus by means of supplements shall be obligatorily performed every 6 (six) months as from the date of concession of registration until the end of the debenture placement.

PRIMARY AND SECONDARY MARKET TRADING

Article 6. All primary placements and public trading of Standardized Debentures shall be carried out on a special segment duly regulated by stock exchanges or entities of the organized over-the-counter market that:

I. - meet all requisites for market transparency and efficiency and provides mechanisms for price formation with full access by investors;

II. - provides quotations at percentages of the principal amount of the securities; and

III. - is integrated with custody and settlement entities authorized to operate in Brazil that permit:

(a) a reduction in operating risks, procedure simplification and ease of access by investors to such market;

(b) registration of individual positions; and

(c) settlement of transactions in gross amounts and with a multilateral net balance.

Sole Paragraph. Secondary trading of Standardized Debentures of a specific issuance or series may be carried out in more than one trading system solely when the respective settlement entities permit free circulation and trading among the markets. The public trading with Standardized Debentures outside such environments is prohibited.

LIABILITIES

Article 7. Without prejudice to the provisions of the rules on public underwriting of securities, the granting of registration hereunder does not exempt the issuer, the leader institution, the stock exchange or entity of the organized over-the-counter market responsible for the statement provided in article 3, II (b) above, and other individuals or legal entities involved in the issuance of Standardized Debentures, from the liabilities arising regarding inadequate applications for underwriting registration, inaccurate or incorrect information in the application, and other liabilities established under applicable laws and regulations.

FINAL PROVISIONS

Article 8. The provisions of the rules on public underwriting of securities and other normative rules on debentures also apply to Standardized Debentures.

Article 9. This Instruction takes effect on the date of its publication in the Official Gazette of the Federal Executive.

LUIZ LEONARDO CANTIDIANO

Chairman

Exhibit I. – Standard Deed of Issuance

Exhibit II. – Standard Remuneration Clause (IGP-M + interest)

Exhibit III. – Standard Remuneration Clause (DI rate)

Exhibit IV. – Standard Remuneration Clause (US dollar + interest)

Exhibit V. – Standard Remuneration Clause (fixed rate)