SIMPSON THACHER

MEMORANDUM

Brazil Increases Tax on Foreign Exchange Transactions Related to Foreign Investments in the Brazilian Financial and Capital Markets

October 22, 2009

Effective October 20, 2009, the Brazilian government increased the Tax on Financial Transactions (*Imposto sobre Operações Financeiras*, or IOF) related to foreign investments in the Brazilian financial and capital markets from zero to two percent. The IOF tax applies upon conversion of foreign currency into Brazilian reais related to equity or debt investments by foreign investors on the Brazilian stock exchanges (principally BM&F-BOVESPA) or the OTC market, as well as private investment funds (FIP), Brazilian treasury notes and other fixed income securities. The outflow of funds from Brazil to abroad, including for dividend payment and return of capital, remains subject to the zero percent rate.

According to the Brazilian Finance Minister, the imposition of the IOF tax on the transactions outlined above is intended to reduce capital inflows and consequently discourage a speculative bubble in the Brazilian capital markets, reduce the appreciation of the Brazilian real and counteract inflationary pressures. According to the Brazilian government, nearly US$20 billion had entered Brazil for investment in the equity capital market in the first nine months of 2009. Foreign capital inflows, as investors around the world seek participation in the Brazilian economy, are viewed as principally responsible for a 69.8% increase in the BM&F-BOVESPA index from its low in March 2009 and a 46.8% appreciation of the real against the U.S. dollar from its low in December 2008.

The IOF tax increase does not apply to transactions on the Brazilian capital markets by foreign investors relating to funds or securities already held in Brazil nor to investments outside of Brazil in American or global depositary shares of Brazilian issuers. The IOF tax applies only to foreign currency inflows by foreign investors for new investments in the Brazilian capital markets. The two percent IOF tax also does not apply to the inflow of foreign currency for direct investments in privately-held companies, which continues to be subject to a 0.38% IOF tax, nor to investments made by foreign investors using a Brazilian investment vehicle. It appears, but is not yet confirmed, that holders of American or global depositary shares of Brazilian issuers will not be subject to taxation if they convert their investments into shares traded on the Brazilian stock exchange.

The IOF tax increase has been subject to criticism by the Brazilian financial community concerned that trading in Brazilian securities may shift to ADRs or reduce demand for Brazilian securities.

If you have any questions about the matters discussed in this memorandum, please contact Todd Crider (tcrider@stblaw.com), Jaime Mercado (jmercado@stblaw.com), Glenn Reiter (greiter@stblaw.com), William Brentani (wbrentani@stblaw.com) or John Ericson (jericson@stblaw.com) of our Brazilian practice or your Simpson Thacher relationship partner. We do not practice Brazilian law and for specific advice will be glad to refer you to a tax specialist at one of our Brazilian correspondent firms.

UNITED STATES

New York
425 Lexington Avenue
New York, NY 10017
212-455-2000

Los Angeles
1999 Avenue of the Stars
Los Angeles, CA 90067
310-407-7500

Palo Alto
2550 Hanover Street
Palo Alto, CA 94304
650-251-5000

Washington, D.C.
1155 F Street, N.W.
Washington, D.C. 20004
202-636-5500

EUROPE

London
Citypoint
One Ropemaker Street
London EC2Y 9HU England
+44-20-7275-6500

ASIA

Beijing
3119 China World Tower One
1 Jianguomenwai Avenue
Beijing 100004, China
+86-10-5965-2999

Hong Kong
ICBC Tower
3 Garden Road
Hong Kong
+852-2514-7600

Tokyo
Ark Mori Building
12-32, Akasaka 1-Chome
Minato-Ku, Tokyo 107-6037, Japan
+81-3-5562-6200

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