

Banobras

IF trends

1. **Coverage:** Does the document accurately describe the characteristics of IF provided by the financial system, including the key participants and financing instruments? Is there any aspect of IF that merits additional analysis?

Yes. Additional analysis of the possible effects National Development Banks have had in IF to mitigate the impact of the regulation.

2. **Trends:** Are the trends in IF presented in this report comprehensive? Are there other important trends that should be considered for inclusion?

Information of the trends in specific sectors (Power, Transportation, Renewable Energy, Social Infrastructure, Telecommunications, Water) also could reflect additional information (tenors or spreads). Similarly, in accordance to our previous response, the trend of the role National Development Banks have had.

3. **Project finance versus corporate finance:** What have been the main factors that explain the recent growth in corporate relative to project finance in IF?

No comments as we haven't seen that

4. **Search for yield:** How important has the global search for yield been as a determinant of the growth in IF in recent years? Has search for yield behavior been more apparent in specific sectors or regions?

In our market this effect has mainly occurred in pension funds, mainly for infrastructure projects in operating phase. Even though some banks have had more risk appetite for IF in search for yield, it has been limited since they have had additional opportunities in other businesses lines with high returns such as consumer loans. We do have seen high demand for long mature funding from private banks to close their mismatch balance in their IF to avoid regulations costs.

5. **Trends for IF in AEs vs EMDEs:** Has the trend in IF volumes been more muted in EMDEs than in AEs since the global financial crisis? If so, what are the main reasons for different trends across regions, and where (if anywhere) does financial regulation feature as a reason?

No comments as we only have operations in the local market.

Financial regulations

6. **Regulation vs other factors:** How do the financial reforms rank relative to other factors (e.g. macroeconomic and financial conditions, political risks, institutional impediments) in terms of their influence on IF?

1. Social and Political Risks

We have seen more influence in our IF by the social risks of the projects. Sometimes, they are related with political risks. These have had negative effects not only in new projects but in operational stage projects as well.

2. Supply of projects (short and long term), firm-specific strategy

As it was mentioned before, the bank only participates on IF in the local markets, the supply of projects becomes an important factor considering the mission of the bank.

3. Financial regulation

Financial regulation has been less substantial for us in our IF. Nevertheless, it has elevated the costs of the projects. In some cases, an economically efficient risk strategy is costlier than a regulatory but no economically efficient strategy.

4. Others

Financial conditions also affect the projects but the use of market risk hedging strategies have mitigated those risks. Additionally, the fact of being a development bank with the federal government guarantee. Currency mismatch has not been an important factor, considering our local currency is very liquid in the international market giving the bank the opportunity to hedge.

7. Relevant reforms: Are Basel III and OTC derivatives market reforms the most relevant G20 reforms for IF? Which other reforms may also be relevant for the purposes of the evaluation? Please elaborate.

Yes, those reforms are the most relevant. The IFRS should also be considered in the evaluation because it could increase significantly loans provisions. Also the complexity for estimating the default probabilities of the projects considering its tenors and the information available could impact the participation of financial intermediaries in the emerging markets.

8. Transmission channels: Are there any major transmission channels in terms of the effects of financial regulation on IF that the evaluation has not considered?

No, we identify the same transmission channels considered in the document.

Evaluation approach

9. Methodology: Is the analytical approach used to evaluate the effect of reforms appropriate? Are there other approaches to consider for this or future evaluations?

The analytical approach is appropriate.

10. Cost-benefit considerations: Do you have any comments on the approaches used in the report to assess the social costs and benefits of the reforms on IF? Are there other types of costs or benefits that should be considered by the evaluation?

The approach could consider the unintended impact financial regulation may have in promoting shadow banking activities that ultimately could be funded by people savings in search of yield.

Effects of reforms

11. IF versus other types of finance: The evaluation's results suggest that financial reforms have not had a disproportionate effect on IF compared to other types of finance. Is this consistent with your view of the market?

In our view the effect on IF could be higher in EMDEs since other non-bank financial sources are less developed. Development banks or other public agencies could be having a complement role to mitigate it.

12. Effects of G20 reforms on IF volumes, spreads and maturities: For the G20 reforms covered in this report (particularly Basel III and OTC derivatives), is there any additional information to support (or contradict) the results on the effects of these reforms on volumes, spreads and maturities of IF?

If the information could be available, the analysis could be complemented with information of planned vs. executed projects, to analyze if some projects were not bankable.

13. Effects on EMDEs vs AEs: Is regulation having a differential effect on the provision of IF to EMDEs vs AEs – if so, how? Are there other differences in terms of regulatory impact that should be considered by the evaluation?

No comments as we only participate in the local market.

14. Effect on substitution of bank financing by other financing: Has there been a partial substitution of bank financing by market-based financing and, if so, to what extent have the reforms contributed to this trend? Is there other information on substitution that should be considered by the evaluation?

We haven't identified a substitution in the construction phase, but we have in the operating phase. The reforms contributed to higher costs for the projects derived from the liquidity reforms that pushed them to seek other financial sources once they become less risky (capital markets). This could have a negative impact on IF from banks as they could find more difficulties to retain operating projects with less risk, decreasing its risk appetite for new IF.

15. Effects of G20 reforms on hedging of risks in IF transactions: Have the G20 reforms covered in this report (particularly Basel III and OTC derivatives) affected the availability or cost of hedging the risks (credit, interest rate, currency etc.) inherent in IF transactions – if so, how? In what ways do these effects differ for AEs vs EMDEs and why?

For the specific case of the bank the availability hasn't been affected, also a significantly increase in the cost of hedging hasn't been identified. The liquidity and tenor are the main

differences between AEs and EMDEs, in our case we have a liquid currency that mitigates the effect observed in other emerging markets.

16. Effects of other reforms: G20 reforms that are at an earlier implementation stage as well as national and regional regulations that apply to insurers and pension funds have only been examined qualitatively. For these regulations, is there further relevant information about their impact on IF that should be considered by this evaluation?

We have no information on this subject to properly answer the question.

17. Other issues: Are there any other issues or relevant factors that should be considered as part of the evaluation?

The heterogeneity in emerging markets causes that the conclusions do not necessarily coincide among the countries considered in the analysis, however, this is predictable since for this sector there is less information than in the case of advanced economies.