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Can Voluntary Market Reforms Improve Corporate Governance? Evidence from Firms' Migration to Premium Markets in Brazil

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ABSTRACT

In many countries, legal reforms to improve minority investor rights often face stiff opposition and, therefore, are difficult to implement. Alternatively, some countries have attempted to reform their capital markets through the creation of private stock exchange segments whose members voluntarily commit to more stringent investor protections. In this paper we examine the “premium” stock exchange segments created by Brazil’s São Paulo Stock Exchange, Bovespa. Bovespa’s initiative was the first that allowed previously exchange-listed companies to migrate to one of three new premium markets. The voluntary migration of companies to these markets constitutes a natural experiment for analyzing the effects of an improvement in corporate governance and disclosure. In this study we find that migration brings positive abnormal returns to non-voting shares, a reduction in the voting (control) premium, and an increase in share trading volume. These results suggest that a premium market listing can substitute for cross-listing on a U.S. exchange as a mechanism for committing to improved corporate behavior.

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1 – Introduction

Several studies have linked the development of a country's capital markets to the protection it affords minority investors.¹ If a corporation's controlling shareholders are able to expropriate wealth from minority shareholders, markets for raising equity capital may break down.² The possibility of expropriation along with poor disclosure of corporate activities also can limit investors' participation in secondary stock markets, reducing market liquidity.

A country's markets for issuing and trading equities cannot function efficiently unless minority investors are confident that firms are following good corporate governance and disclosure practices. In an environment where minority shareholders are poorly protected, a potential remedy is to reform the country's corporate law. However, legislative reforms often are very difficult to implement: improving minority rights can reduce the value of control that some powerful majority shareholders exert over particular firms. These controlling shareholders are frequently successful in opposing such changes, even when the majority owners of other firms favor the reforms.

When a country's legal system provides weak protection for minority shareholders, firms that wish to raise outside capital may seek ways to commit to a higher standard of corporate behavior. In the absence of legal reforms, private institutions might allow firms that are committed to good governance to separate themselves from others. One potential commitment mechanism is for a country's private stock exchange to establish a separate stock market segment that sets and enforces rules that exceed those required by law. By voluntarily listing on such a "premium" stock market, a firm would pledge to better protect minority shareholders. In this paper, we consider the special stock market segments created in 2001 by Brazil's Bovespa (the São Paulo Stock Exchange) and analyze the stock prices and the stock trading volumes of the firms that chose to list on them.

¹ This research includes La Porta et al. (1997), (1998a), (1998b), and Gleaser, Johnson and Shleifer (2001).

² See Shleifer and Wolfenzon (2000).

The first example of a special “premium” stock exchange segment was the Neuer Markt, created in 1997 by the Deutsche Börse (Frankfurt Stock Exchange). The Neuer Markt was a response to Germany’s low disclosure requirements that had hindered transparency and were blamed for a near absence of initial public offerings (IPOs) by innovative, high growth firms.³ To have its IPO of shares be listed on the Neuer Markt, a firm signed an agreement with the Deutsche Börse to maintain especially high standards of disclosure and transparency.⁴ The Neuer Markt was perhaps too successful in launching German IPOs. Its popularity with investors led to a tremendous run-up in the prices of its listed shares of technology companies. The bursting of this stock price bubble starting in March of 2000 tarnished the Neuer Markt’s reputation and led the Deutsche Börse to terminate this special segment in October of 2002.⁵

Similar to the Deutsche Börse, Bovespa acted to combat Brazil’s poor corporate governance and disclosure standards that had impaired the liquidity of Brazilian shares. In 2001, Bovespa established the Novo Mercado, a special stock exchange segment patterned, in part, after the Neuer Markt. Novo Mercado is restricted to firms that meet stringent standards, including: the issuance of only voting shares; a minimum of 25 % of all shares not controlled by majority shareholders; the entire Board of Directors having one-year terms in office; provision of financial statements in accordance with U.S. GAAP or IAS GAAP principles; requiring the same conditions provided to majority shareholders in a transfer of the controlling stake (takeover) be given to all shareholders (tag along rights); in the case of a privatization or delisting, tender offers must to made for all outstanding shares at their economic values; trades by controlling shareholders and senior managers are subject to disclosure rules; and settlement of shareholder conflicts by an arbitration panel.

Recognizing that some of these conditions are too strong for most Brazilian firms, Bovespa also created two additional intermediate markets denominated Niveis

³ Prior to the Neuer Markt, an increasing number of German start-ups chose to list their IPOs on the U.S. NASDAQ exchange.

⁴ The Neuer Markt described itself as “the most regulated market in Europe.” See “Playing By the Rules: How Neuer Markt Gets Respect,” *The Wall Street Journal* August 21, 2000.

⁵ The Neuer Markt’s All-Share Index rose 1,636 % during the three years preceeding its peak in March 2000 (c.f., the Nasdaq-100’s rise of 459 % during this same period). In October 2002, this All-Share Index equaled 4 % of its March 2000 value. In January 2003, Deutsche Börse restructured all exchange listings into two segments. Firms were automatically listed on a market called the General Standard unless they applied for listing on a second market called the Prime Standard which set higher disclosure requirements. See Burghof and Hunger (2003) for a detailed discussion of the rise and fall of the Neuer Market.

Diferenciados de Governança Corporativa 1 and 2, referred to as Nivel (Level) 1 and 2. Nivel 2 differs from Novo Mercado in that it allows for non-voting shares. Nivel 1 is the least restrictive and, for example, does not require takeover and privatization protections. The main requirements for entering Nivel 1, Nivel 2, and Novo Mercado are listed in the Appendix.

In contrast to the Neuer Markt's focus on young, high growth firms seeking a first-time exchange listing, Bovespa allowed mature firms currently listed on the São Paulo Stock Exchange to migrate to one of the three new "premium" markets. Nivel 1 opened in June of 2001 with the migration of 15 companies. As of September 2006, there were a total of 36 companies that had migrated to Nivel 1, 8 companies that had migrated to Nivel 2, and 6 companies that had migrated to Novo Mercado.⁶ This migration constitutes a natural experiment to test the effects of a strong commitment to improved corporate governance and disclosure.

A Brazilian company that meets the listing requirements of one of Bovespa's premium markets commits to a level of investor protection and disclosure that is substantially greater than the standards set by Brazilian law. In a ranking of 49 countries based on their 1997 corporate standards, Nenova (2001a) places Brazil 24th in terms of investor rights, 43rd in terms of enforcement of corporate law, and 40th in terms of accounting standards. Moreover, because Brazilian law permits non-voting shares, corporations can be controlled by shareholders having a relatively small equity stake.⁷ As discussed in Nenova (2001b), 89 % of Bovespa-listed firms have issued non-voting shares. Non-voting shares represent 54 % of all shares on Bovespa and the vast majority of the exchange's trading volume. Many listed companies are controlled by families or institutions that own a majority of the voting shares, and examples of expropriation by these dominant shareholders are common. Empirical analysis by Dyck and Zingales (2004) is consistent with such expropriation. They estimate the benefits of corporate control based

⁶ In addition to these migrating firms, as of September 2006 there were 30 Brazilian firms that listed IPOs on Novo Mercado or Nivel 2. These IPOs will be discussed in Section 6.

⁷ To stimulate capital markets, legislation during the late 1960s and early 1970s provided substantial subsidies to firms that listed their shares on a stock exchange. However, ownership concentration was encouraged by permitting the issuance of non-voting shares. In 1976, changes in Corporate Law 6404 raised the limit for non-voting shares from the previous 50 % to 66.7 % of total shares, so that a controlling shareholder owning a majority of voting shares would require as little as 16.7 % of the firm's total shares. In 2001, the maximum percentage of non-voting shares was returned to 50 % of total capital.

on the prices of controlling block sales from 393 corporate transactions in 39 different countries. Brazil was found to be the country with the greatest average control benefits.

Listing on one of Bovespa's premium markets may not be the only way that a Brazilian firm can commit to better protect minority shareholders. Coffee (1999) and Stulz (1999) contend that a firm can cross list its equity shares on an exchange of a foreign country that safeguards shareholder rights.⁸ Specifically, shares could be cross listed on the New York Stock Exchange (NYSE) or NASDAQ through an American Depository Receipt (ADR). An NYSE/NASDAQ cross-listing requires the firm to register with the U.S. Securities and Exchange Commission (SEC) and abide by the SEC's and, in principle, the exchange's governance and disclosure standards.

However, as discussed in Coffee (2002 p.29), a U.S. exchange's corporate governance standards usually are waived for foreign firms.⁹ Thus, only the disclosure standards and shareholder legal rights required by the SEC constrain cross-listing firms. These requirements include conforming to U.S. GAAP accounting, submitting to SEC enforcement actions, and providing shareholders the right to bring lawsuits in U.S. courts.¹⁰ A review of the empirical literature on cross listings by Benos and Weisbach (2004) concludes that the goal of protecting minority shareholders is one of many reasons why firms choose to cross-list their stocks in the U.S.¹¹ Other reasons relate to a reduction in market segmentation, possibly by lowering the transactions costs of U.S. investors and by increasing the firm's visibility among U.S. security analysts. All of these reasons suggest that cross listing reduces a firm's cost of equity financing and increases its share liquidity.

⁸ In addition to seeking a premium market listing or a foreign cross listing, Ribstein (2005) discusses alternative ways that firms can commit to protecting minority shareholders. If a country with weak legal protections has multiple stock exchanges, a particular exchange that requires stricter governance practices may provide another commitment mechanism. Such is the case in Korea where the Korea Securities Dealers Automated Quotation System (KOSDAQ) has more stringent delisting standards than the Korean Stock Exchange (KSE). Controlling for non-governance factors that affect a firm's choice of exchange, Dewenter et al. (2005) find that Korean firms listed on KOSDAQ have higher valuations relative to similar firms listed on KSE. Prior to 2000, Brazil had nine different stock exchanges that, since the 1960s, were controlled by finance departments of the Brazilian government. In 2000, these exchanges were merged into Bovespa which became a self-regulating organization. Bovespa is supervised by Brazil's Comissão de Valores Mobiliários (CVM), the Brazilian Securities and Exchange Commission.

⁹ Waivers are granted if a firm shows that it abides by the governance standards of its home country.

¹⁰ Table 4 of Benos and Weisbach (2004) gives the specific requirements associated with SEC registration.

¹¹ See also Doidge (2003), Doidge, Karolyi, and Stulz (2004), Karolyi (2004), and Reese and Weisbach (2002).

Research examining the stock returns of firms that cross-list on U.S. exchanges generally finds positive or insignificant abnormal returns at the time of the listing.¹²

A primary motive for creating its premium markets was Bovespa's desire to recover trading in Brazilian cross-listed shares that had flowed to U.S. exchanges.¹³ However, migrating to a Bovespa premium market and cross-listing on a U.S. exchange are imperfect substitutes since disclosure requirements, governance standards, and access to U.S. investors can differ. Moreover, fees and minimum financial requirements associated with a U.S. exchange listing can be high and prohibitive for smaller firms.¹⁴ Not surprisingly, some Brazilian firms have chosen a U.S. exchange listing, others have migrated to Bovespa's premium markets, and still others have done both. As shown in Table 1, of the 41 companies in our sample that migrated to one of Bovespa's premium exchanges, 9 had a prior NYSE cross-listing and another 5 established an NYSE listing after migrating. Nine additional migrating companies had prior ADRs that traded in the over-the-counter (OTC) 'pink sheet' market.¹⁵ SEC registration is not required for an OTC-listed ADR, so it provides low cost access to U.S. investors without a commitment to greater shareholder protection.¹⁶ Miller (1999) gives supporting evidence based on a sample of 181 firms from 35 countries that established ADR programs during the 1985 to 1995 period. Firms that announced ADRs listed on NYSE/NASDAQ experienced abnormal stock returns that averaged 2.63% while the average abnormal stock return of firms announcing OTC-listed ADRs was 1.27%.

The goal of this paper is to examine the impact on a firm's shares when it voluntarily migrates to one of Brazil's premium markets. While numerous studies have

¹² These studies include Alexander, Eun, and Janakiraman (1988), Foerster and Karolyi (1999), and Miller (1999).

¹³ See Coffee (2002). Bovespa estimates that by 2001, approximately 37 % of trading volume in Brazilian shares was in the U.S.

¹⁴ Miller (1999) reported that an initial cross-listing fee alone could exceed \$1 million. In addition, there are continuing annual listing fees for the major U.S. exchanges and also costs of establishing an ADR with a depository bank. Macey and O'Hara (2002) analyze the rationale for exchange listing fees and listing requirements, especially those of the NYSE. In contrast, listing fees for Bovespa are the same whether or not a firm is listed on a premium market.

¹⁵ The remaining 17 companies that migrated to a Bovespa premium market had no prior U.S. listing nor did they establish one (as of this writing) following migration. In addition, currently there are approximately 16 Brazilian companies that have a NYSE listing and one that has a NASDAQ listing that have not migrated to a Bovespa premium market.

¹⁶ See Reese and Weisbach (2002). Listings exempt from SEC registration can also be established as ADRs holding privately-placed equities and traded on PORTAL. None of the migrating firms had such ADRs.

analyzed a firm's decision to cross-list its shares on a foreign exchange, our paper is the first to investigate the decision to migrate to a domestic market specifically designed to raise the standards of disclosure and corporate governance. Because there can be multiple reasons why a firm establishes a foreign listing, our study of migration to a domestic premium market allows us to better identify the specific impact of a firm's commitment to greater shareholder protection. We focus on three aspects of a firm's shares at the time of migration: abnormal stock returns, changes in a share's voting (control) premium, and changes in shares' volume traded.

The remainder of the paper is structured as follows. Section 2 discusses the potential effects of migration on the values and trading of firms' shares and develops testable hypotheses. Section 3 explains the empirical methodologies for the paper's statistical tests. Section 4 describes the data used in the tests. The results are presented in Section 5. To gauge the overall impact of Bovespa's premium segments, Section 6 includes current statistics on initial public offerings on Novo Mercado and Nivel 2. It also reports how premium-listed firms' seasoned equity offerings, trading volume, market capitalization compare to those of non-premium-listed firms. Section 7 concludes.

2 – The Potential Effects of Migration on Firms' Shares

A firm's decision to migrate to one of Bovespa's premium markets indicates its willingness to voluntarily abide by higher corporate governance and disclosure standards than are required under Brazilian law. Assuming that investors did not fully expect the firm's decision, migration could have an impact on the value of the firm's shares and, possibly, its shares' trading volume.

As mentioned earlier, most Brazilian firms issue dual-class shares: voting shares (denoted ON) and non-voting shares (denoted PN). A controlling family or institution typically holds a majority of a firm's voting shares. The rest of the voting shares are held primarily in small blocks by institutional investors, such as domestic banks and foreign and domestic investment funds, and these minority voting shares are infrequently traded. Because these institutional investors have relatively good information and bargaining power, they may be less subject to expropriation by the controlling shareholder. It is not

uncommon for voting shareholders to bring a lawsuit against the controlling shareholder.¹⁷ Hence, minority holders of voting shares may be less susceptible to expropriation, particularly when control of the firm changes hands or is taken private by the controlling shareholder.¹⁸ They may be able to force the majority owner to share some of the benefits of control.

Under current Brazilian law, a firm's non-voting shares cannot exceed one-half of its total equity capital. Non-voting shares also must be paid dividends equal to at least 110 % of the dividends paid to voting shares. Ownership of non-voting shares tends to be more widely dispersed than voting shares and trading volumes are higher. Dispersed ownership, less access to firm information, along with a lack of voting privileges, gives non-voting shareholders little bargaining power vis-à-vis the controlling owner. They are more likely to be subject to expropriation, especially during going-private transactions.

To the extent that better corporate governance and greater information disclosure reduces the likelihood that controlling shareholders can expropriate wealth from minority shareholders, we expect to see a rise in the value of minority shares when a firm migrates to one of Bovespa's premium exchanges. This rise in value could derive from two sources. First, better governance reduces the probability that dominant shareholders can extract value from minority shareholders. Second, improved governance can lead to greater operational efficiency and a resulting increase in total firm value.

Since non-voting shares are more susceptible to expropriation, their values may be expected to increase the most when a firm migrates. While greater firm efficiency associated with improved governance would tend to raise the value of voting shares, their value might rise less if minority voting shares previously enjoyed some of the benefits of control. Hence, we can expect that the value of the voting (control) premium, defined as the value of voting shares relative to non-voting shares, will decline at migration.

A migrating firm's commitment to improved information disclosure would tend to reduce information asymmetries between the firm's insiders (including the majority shareholder) and outside (minority) investors. Thus, outside investors are less likely to suffer trading losses that derive from a corporate insider's superior information. A decline

¹⁷ Such a case would be decided by Brazil's Securities and Exchange Commission, the CVM.

¹⁸ See Nenova (2001b).

in trading losses can expand investor participation in shareholding, thereby increasing the volume of trading and the liquidity of the firm's shares. Therefore, trading volumes in voting and non-voting shares are expected to increase following a firm's migration. The improvement in liquidity might be greatest for non-voting shares because, as discussed earlier, non-voting shareholders tend to have less access to inside information.

3 – Empirical Methodology

3.1 – Migration's Effect on Shareholder Returns

To assess investors' perception of a firm's decision to migrate to one of the premium markets, we conduct an event study and calculate the abnormal returns of a firm's equity shares around the time of its migration. Ideally, the event window for the study would be determined by a public announcement of the firm's decision to migrate, but identifying precise announcement dates was not possible. Our search of the Brazilian financial press revealed an absence of clear announcement dates: in most instances there was no mention of a firm's migration. Generally, the migration became public through several notes and imprecise comments from Bovespa staff. Apparently, the media did not perceive the migrations as significant events that could have an important impact on the firms' stock prices.

Therefore, to compensate for our uncertainty of when information about a firm's migration became public, we defined two different event windows around the migration date:

- Window-31: three trading days before and one after the migration
- Window-22: two trading days before and two after the migration

We chose windows that included two or three days prior to migration in order to account for cases in which a firm's intention to migrate became public information prior to the actual event. Since it would be clear to investors that a firm actually migrated by one or two days following its new listing on Bovespa's premium exchanges, it makes sense to end the event window relatively shortly after the actual migration date.

The econometric returns generating model was a market model based on two Brazilian stock indices: IBOVESPA and IBX. IBOVESPA is the most well-known Brazilian stock index, but it is concentrated in only a few company stocks. For this reason we opted to also include IBX, a more diversified index.

The first model that we estimate takes advantage of the panel structure of the data and assumes that the abnormal return is the same for all migrating firms:

$$R_{it} = \alpha_i + \beta_i B_t + \gamma_i X_t + \lambda W_{it} + \varepsilon_{it}, \quad (1)$$

where

R_{it} is the return of stock i on date t ;

B_t is the return of the IBOVESPA index on date t ;

X_t is the return of the IBX index on date t ;

W_{it} is a dummy variable indicating the dates of the event window for stock i .

A positive value for λ , the coefficient on W_{it} , indicates the existence of positive abnormal returns. Equation (1) was estimated jointly for all stocks of migrating firms, constraining the abnormal return, λ , to be the same across stocks so as to test for general statistical significance. We used two different methods regarding the treatment of the residuals, ε_{it} : GLS with correction for heteroskedasticity and GLS with correction for random effects. As a check for robustness, we used four different estimation windows:

- 80 trading days before the migration;
- 80 trading days before and 80 after the migration;
- 40 trading days before and 40 after the migration; and
- 80 trading days before and 40 after the migration.

As mentioned in the introduction, an alternative way that some firms might persuade investors of their commitment to high standards of disclosure and corporate governance is to cross-list their shares on a U.S. exchange. Thus, one might expect that the marginal impact of migrating to one of Bovespa's premium exchanges would be less if the firm had previously listed its stock on a U.S. exchange. To allow for abnormal stock returns that differ between firms with and without a prior cross-listing, we also estimated a second panel regression model:

$$R_{it} = \alpha_i + \beta_i B_t + \gamma_i X_t + \lambda W_{it} + \omega NYSE_i W_{it} + \varepsilon_{it}, \quad (2)$$

where

$NYSE_i$ is a dummy indicating stock i was cross-listed on the NYSE prior to migrating.¹⁹

A negative value for ω would indicate that migrating to one of Bovespa's premium markets is less valuable for shareholders of firms that had a prior NYSE listing.

As a third method of analyzing abnormal stock returns at migration, we performed separate market model event studies for each stock of a migrating firm. This allowed estimates of abnormal returns to differ across stocks. Individual regressions for each stock return were run based on an estimation window of 80 trading days prior to its migration and an event window of Window-31. While we can test for the significance of the abnormal return for each individual stock, we were unable to test the significance of the mean across stocks. This is due to the likelihood that the abnormal returns for each stock were not statistically independent, since several firms migrated on the same date.²⁰

3.2 – Migration's Effect on the Voting (Control) Premium

To test whether a firm's migration had an effect on the relative values of voting versus non-voting shares, we calculated the voting shares' premium at date t as follows:

$$VP_t = \frac{(P_{v,t} - P_{nv,t})N_{v,t}}{P_{v,t}N_{v,t} + P_{nv,t}N_{nv,t}} \quad (3)$$

where

$P_{v,t}$ is the price of a voting share;

$P_{nv,t}$ is the price of a non-voting share;

$N_{v,t}$ is the number of voting shares;

$N_{nv,t}$ is the number of non-voting shares;

¹⁹ Recall that all seven of the migrating firms that had a prior exchange cross-listing were listed on the NYSE.

²⁰ See Campbell, Lo and MacKinlay (1997).

During the years 2000 and 2001, there were discussions in Brazil regarding potential reforms to its corporate law. The primary proposal was to provide tag-along rights to all voting shares. In November 2001, compromise legislation was enacted that required the buyer of a firm's controlling stake to offer at least 80 percent of the controlling stake's offer price to all of the other voting shares. These corporate law discussions were likely to have had an impact on the value of all firms' voting premiums. Therefore, in our tests of how migration affects a firm's voting premium, we adjust each firm's voting premium by the average voting premium of all corporations in the IBX index that had dual-class shares. Thus, a migrating firm's adjusted voting premium is given by

$$AVP_t = VP_t - VP_{IBX,t} \quad (4)$$

where $VP_{IBX,t}$ is the date t average voting premium of all firms in IBX having both voting and non-voting shares.

We then test whether a firm's adjusted voting premium 4 weeks, 8 weeks, or 16 weeks after migration was different from its adjusted voting premium during the 52 weeks prior to migration. Our test assumes that

$$\overline{AVP}_T \sim N(\mu_T, \sigma_T^2) \quad (5)$$

where \overline{AVP}_T is the firm's average adjusted voting premium during period T , where $T = B$ is the period before migration and $T = A$ is the period after migration. We test whether $\mu_B = \mu_A$, that is, whether the mean adjusted voting premiums were the same before and after migration.

3.3 – Migration's Effect on Trading Volume

During the time when many of our sample firms migrated to premium markets, Bovespa experienced a serious decline in stock trading volume. Insecurity from the 2001 crisis in Argentina had spread to Brazil, and a flight to quality led many foreign investors to avoid emerging markets. Therefore, to isolate the effects of migration on a particular stock's trading volume, we need to adjust for overall market factors that influenced trading.

We assume a simple model in which the daily volume traded in a particular stock is a function of the volume traded in all stocks listed on Bovespa. The econometric estimation was based on the panel regression:

$$\ln(V_{it}) = \alpha_i + \lambda DM_{it} + (\beta_i + \gamma DM_{it}) \ln(VB_t) + \varepsilon_{it}, \quad (6)$$

where

- V_{it} is the average daily volume traded in R\$ thousands of stock i during week t ;
- VB_t is the average daily volume traded in R\$ millions of all stocks on Bovespa during week t ;
- DM_{it} is a dummy variable equal to 1 if company i has migrated prior to week t and zero, otherwise.

The model in equation (6) allows each stock to have a different unconditional trading volume, α_i , and a different proportional sensitivity to the total volume traded on Bovespa, β_i . The effect of migration is indicated by λ and γ , the coefficients on the variables DM_{it} and $DM_{it}\ln(VB_t)$. Since it is probably more natural to consider migration as having an effect that is proportional to a particular stock's prior volume of trading, equation (6) is estimated in logs of volume, rather than levels. However, because there are some days when a particular stock has no trading volume, we aggregate volume over a week to eliminate observations equaling zero. Note that equation (6) implies

$$\left(\frac{1}{V_{it}}\right) \partial V_{it} = [\lambda + \gamma \ln(VB_t)] \partial DM_{it} \quad (7)$$

If migration leads to greater trading volume, perhaps because a commitment to greater disclosure improves a stock's liquidity, then we should expect to see that $\lambda + \gamma \ln(VB_t)$ is positive. The coefficient λ indicates the stock's proportional change in unconditional volume while γ measures the change in the stock volume's elasticity with respect to Bovespa's volume since

$$\frac{\left(\frac{1}{V_{it}}\right) \partial V_{it}}{\left(\frac{1}{VB_t}\right) \partial VB_t} = \beta_i + \gamma DM_{it} \quad (8)$$

For example, a 1 % change in Bovespa volume ($\frac{1}{VB_t} \partial VB_t = 1\%$) results in a $[\beta_i + \gamma DM_{it}]$ % change in stock i 's volume.

4 – The Data

Our data come from Economatica and include the daily closing stock prices and the daily monetary values of volume traded in the stocks of all firms that migrated to one of Bovespa's premium markets. These time series cover the five year period between June 2001 and June 2006. Some of our tests also use the daily returns on the BOVESPA and IBX indices, the total daily monetary value of volume traded in all stocks listed on Bovespa, as well as the stock prices of voting and non-voting shares of all firms in the IBX index (to adjust for voting premium variations). To construct daily returns, Economatica adjusts daily percentage price changes for splits, dividends, and other cash and non-cash rights.

As shown in Table 1, our tests use prices and returns of 54 different stocks issued by 41 different corporations that migrated to one of Bovespa's premium markets. Because some stocks are thinly traded, they were excluded from particular tests. The specific tests' sample selection criteria are discussed in the next section.

5 – Results

5.1 – Abnormal Stock Returns

The results of estimating the market model in equation (1) are given in Tables 2 to 4. To be included in the regression, we require a stock to have traded on at least 115 of the 160 trading days around its firm's migration and also to have traded during the event window. Table 2 reports estimates from a panel of the 47 stocks that met the selection criteria. This sample includes both voting and non-voting shares from 39 different firms.²¹ The estimated cumulative abnormal return at migration is positive and statistically significant for both the three days before and one day after migration event window (Window-31) and the two days before and two days after event window (Window-22). The point estimates for the abnormal returns range between 1.31 % and 2.22 % depending on the chosen event and estimation windows and error correction method. However, in each

²¹ One of the stocks, coded UBBR11, is a unit (UNT) stock issued by Unibanco representing ownership of both one voting share and one non-voting share.

case the evidence supports the notion that investors view a firm's listing on one of Bovespa's premium markets as a commitment to greater minority shareholder protection.

This increase in shareholder value at the time of migration is only slightly less than the 2.63 % increase that Miller (1999) found when firms announced a cross-listing on the NYSE or NASDAQ. As Stulz (1999) has pointed out, the size of the abnormal returns found by Miller (1999) and others may be an underestimate of the true increase in value that shareholders attribute to a firm's cross-listing because the firm's action may have been partially anticipated. The same insight holds for our event study: some of the increase in shareholder value may have occurred weeks before a firm's actual migration date if investors viewed migration to have positive probability. Hence our estimates of the impact of migration are likely to be conservative.

In Table 3, we re-estimate equation (1) but with only the voting shares of 12 different corporations. The sample size is small because voting shares tend to be thinly traded and many do not meet our selection criteria. Thus, the results in this table should be treated cautiously. For the event Window-31 or when correction for random effects is chosen, the abnormal returns at migration are not statistically significant. Only for the case of event Window-22 and correction for residual heteroskedasticity do we find positive and significant abnormal returns in the range of 2.29 % to 2.61 %. Perhaps only when the event window includes two days after migration does the return appear significant. This seemingly delayed stock price reaction might be a result of the relatively infrequent trading of voting shares.

The estimates in Table 4 are, again, based on equation (1) but here the sample is restricted to the non-voting shares of 34 different firms. These results are similar to those for the full sample of all stocks in Table 2, in that for all event and estimation windows and residual correction methods, the point estimates for the abnormal return at migration is positive and statistically significant. From Tables 2, 3, and 4, we see that the average point estimate across the different windows and correction methods is 1.84 % for all shares, 1.34 % for voting shares, and 1.98 % for non-voting shares.

Table 5 reports estimates using the market model in equation (2) that permits the effects of migration to differ for firms that had a prior cross-listing on the NYSE. Nine of the 39 firms, representing 12 of the 47 stocks, had an NYSE listing prior to migrating. The point estimates on the NYSE listing variable interacted with the event window, $NYSE_iW_{it}$, are usually negative, with the exceptions being the cases with event Window-22 and correction for random effects. However, in none of the cases is the estimate of this interaction variable statistically significant from zero. Thus while it might have been expected that a prior NYSE listing would mute the impact of migrating to one of Bovespa's premium markets, there is not strong evidence that this is the case. The implication is that an NYSE listing and listing on one of Bovespa's premium markets are complementary ways of committing to greater protection of minority shareholders.

Our final analyses of abnormal returns involve estimating separate market models of the form of equation (1) for each stock issued by a migrating firm. The results assuming an event Window-31 are reported in Table 6. There one sees that the average abnormal return is 1.90 % and statistically significant from zero.²² Ten of the 47 stocks had significantly positive abnormal returns while only two stocks had significantly negative returns. The average abnormal return for the 12 stocks issued by firms that had a prior NYSE listing was 1.28 % while the average abnormal return for the 35 stocks that did not have an NYSE listing was 2.11 %. The average abnormal return for non-voting shares was 2.38 % while it was only 0.88 % for voting shares. In summary, these results on abnormal returns at migration support the view that non-voting shareholders place significant value on a firm's decision to list on a Bovespa premium market, especially if the firm did not have a prior NYSE listing.

5.2 – The Voting Premium

Table 7 analyzes the market-adjusted voting (control) premium for 16 migrating firms that had dual-listings of voting and non-voting shares. Column one gives the adjusted voting premium during the 52 weeks prior to migration while columns two, three, and four

²² A caveat with this statement is that the test statistic for this average abnormal return assumes independence of the stocks' abnormal returns. Since some firms migrated on the same date, this assumption may not hold. This potential lack of independence was the motivation for our panel regression tests in Tables 2 through 5.

give the change in the average control premium during the periods of four weeks, eight weeks, and 16 weeks following migration.

For each post-migration period, we see that a greater number of firms experienced a statistically significant decline in their voting premiums compared to the number of firms that experienced a statistically significant increase in their voting premiums. The numbers of declining versus increasing voting premiums were 4 versus 3, 7 versus 4, and 8 versus 6, for post-migration periods of 4, 8, and 16 weeks, respectively.

The relative numbers of firms with declining premiums are even larger when we exclude firms that had very little trading of voting shares. Firms that had less than 20 weekly trade observations during the 52 weeks prior to migration or less than 10 weekly trade observations during the 16 weeks following migration were Alpargatas (ALPA), Celesc (CLSC), Gerdau (GGBR4), Gerdau Met (GOAU), Perdigão (PRGA), and Sadia (SDIA). Excluding these firms, of the remaining 10 firms we see that the numbers of declining versus increasing voting premiums were 4 versus 1, 7 versus 1, and 7 versus 2, for post-migration periods of 4, 8, and 16 weeks, respectively.

Thus, we see that our results on migration's impact on firms' market-adjusted voting premium are consistent with our results on abnormal returns. The benefit to minority shareholders from migration is greater for non-voting shareholders relative to voting shareholders.

5.3 – Trading Volume

Table 8 reports results of tests that examine how migration affects the trading volumes of stocks. Regressions of equation (6) are estimated using weekly averages of daily trading volumes during the 100 trading days prior to a firm's migration and the 100 trading days after its migration. To be included in this analysis, a stock must have traded on at least 115 of the 160 trading days around the date of migration. Models 1, 2, and 3 of the table correct the regression residuals for heteroskedasticity while Models 3, 4, and 5 correct the regression residuals for random effects. Models 1 and 4 allow for only a fixed proportional shift in daily trading volume while Models 2 and 5 allow for only a shift in the

stock volume's sensitivity to changes in Bovespa's total volume. Models 3 and 6 are most general in allowing both effects.

When only a fixed shift is modeled, columns 1 and 4 of Table 8 indicate that if all shares are considered together, migration leads to a statistically significant increase in volume of 7.8 % and 17.1 % for Models 1 and 4, respectively. Examining sub-samples, there is some evidence that this increase is stronger for non-voting shares, where volumes increase 8.0% and 17.7 % for Models 1 and 4. For voting shares, there is statistically significant change in volume only for Model 4 which indicates a rise of 13.7 %. Interestingly, when only stocks that had NYSE cross-listings prior to migration are considered, migration leads to their volumes on Bovespa increasing by the substantial amounts of 11.3 % and 18.3 % for Models 1 and 4, respectively. One explanation for these significant rises in volume may be shifts in trading from the NYSE to Bovespa.

The results are qualitatively similar if one models the effect of migration as being only a change in the stock volume's elasticity with respect to Bovespa's total volume of trading. In Models 2 and 5, the proportional increase in volume due to migration equals $\gamma \ln(VB_t)$. If we evaluate this change at the daily average log volume (in R\$ millions) traded on Bovespa during our sample period, 20.26, one obtains a proportional increase of $0.004 \times 20.26 = 8.1\%$ and $0.009 \times 20.26 = 18.2\%$ in Models 2 and 5 for the sample of all shares. As before, this increase from migration is clearest for non-voting shares (8.1 % and 18.2 % for Models 2 and 5) and NYSE cross-listed shares (10.1 % and 18.1 % for Models 2 and 5).

The most general specifications, Models 3 and 6, imply that the proportional effect of migration equals $\lambda + \gamma \ln(VB_t)$. From Table 8, we see that when both effects are permitted, the sign of λ is typically the opposite of that for γ . However, if, as before, $\ln(VB_t)$ is evaluated at the sample average of 20.26, we find that the net effects of migration for all shares are positive, equaling 8.8 % and 18.1 % for Models 3 and 6, respectively. With this specification, the average net impact of migration on the volume of voting shares appears small (-0.2 % for Model 3 and 8.8 % for Model 6), while the average net impact for non-voting shares is significantly positive only for Model 6 (19.9 %). However, NYSE

cross-listed stocks continue to be significantly positive for both heteroskedasticity and random effects corrections (8.7 % and 11.3 % for Models 3 and 6).

For those Brazilian companies that had an NYSE ADR prior to migration, we further explored whether the company's migration to one of Bovespa's premium markets affected the volume of trading in its ADR on the NYSE. We collected daily trading volume for 11 ADRs of the 10 Brazilian firms that were cross-listed on the NYSE prior to their migration. We then estimated equation (6) but where V_{it} was the average daily volume traded of ADR i during week t and where V_{B_t} was the average daily volume traded of all Brazilian NYSE ADRs during week t . The results are reported in Table 9.

When only a fixed proportional increase due to migration is specified, the impact of migration is a significantly positive increase in ADR volume of 9.6 % for the heteroskedastic correction case, but no discernable change for the random effects correction. When only a change in the stock volume's elasticity with respect to total ADR volume is specified, again the effect is only significant for the heteroskedastic adjustment case. Since the average log volume of Brazilian ADRs was 9.32, the effect of migration on volume is estimated to be $0.011 \times 9.32 = 10.3$ %. The only case where the random effects corrections result in statistical significance is when the proportional effect of migration is specified to be $\lambda + \gamma \ln(V_{B_t})$. In this case, migration leads to a small 1.2 % increase in ADR volume.

In conclusion, our estimates of the effect of migration indicate significant increases in trading of non-voting shares and NYSE cross-listed shares. This is consistent with the view that the greater disclosure after migration provides more benefits to the relatively lesser-informed non-voting shareholders. Minority investors of firms listed on premium exchanges appear to have increased confidence that they will avoid losses due to insider trading. These results are also evidence that Bovespa was successful in its goal of establishing premium listings as a way of quelling its loss of trading to U.S. exchanges. However, trading in NYSE ADRs does not appear to be harmed. The higher disclosure and governance standards of a Bovespa premium listing may have complemented the standards required by an NYSE cross-listing.

6 – IPOs, SEOs, and the Overall Impact of Bovespa’s Premium Markets

In this section, we assess the economic significance of Bovespa’s premium markets. First, we include a discussion of IPOs introduced on premium markets. Second, we consider which firms have recently made seasoned equity issues (SEOs). Last, we examine how the proportions of Bovespa’s total trading volume and market capitalization accounted for by premium-listed firms have changed since the introduction of premium segments.

While a firm with a prior Bovespa exchange listing can establish a premium listing by migration, a firm with a first-time equity issue also can choose to list on a premium market. Table 10 reports the annual numbers of IPOs and the total amounts issued since 1995. This table makes clear that, until recently, Brazilian IPOs have been rare, averaging less than one per year. However, the situation changed dramatically with 7 IPOs in 2004, 9 IPOs in 2005, and 14 IPOs thus far in 2006. A recent return to macro-economic stability in Brazil is surely one factor in explaining this greater number of IPOs. In 2004 Brazil experienced a strong trade surplus accompanied by an appreciating currency. But perhaps the most important factor cited by investment managers for the growth in IPOs is the greater commitment to corporate governance and disclosure made possible by Bovespa’s premium markets.²³

Table 11 shows that 25 of the 31 IPOs since 2001 chose the highest governance standards of Novo Mercado and five chose Nivel 2. No IPOs chose Nivel 1 and only one chose Bovespa’s standard listing. Moreover, Brazilian regulations explain why the three Nivel 2 companies (Gol, TAM, and ALL) did not choose Novo Mercado. Gol and TAM are airline companies, and regulations prohibit foreigners from owning more than 20 % of their voting shares. This restriction could be violated if the companies committed to Novo Mercado’s requirement of issuing only voting shares and maintaining a free float of 25 % of all shares. Similarly, ALL has a railroad concession and was instructed by its regulator ANTT (National Agency for Land Transportation) to undo its prior plans to list on Novo Mercado because its controlling group is required to own a majority of voting shares, a restriction that would be difficult on Novo Mercado.

²³ See “Brazil’s Capital Markets Prepare for Take-Off,” *The Banker*, August 1, 2005.

Note that only three of the IPO firms chose a dual NYSE listing. Yet, foreign investors purchased a majority of shares in most of the IPOs.²⁴ This suggests that it is not necessary for Brazilian firms to list in the U.S. in order to have access to foreign capital. Foreign institutional investors appear to be attracted to Novo Mercado's corporate governance standards that are, in many ways, more stringent than what is required by a U.S. ADR. The initial first-day returns of these IPOs average 7.5 %, substantially less than the 78.5 % average initial return that Aggarwal, Leal, and Hernandez (1993) found for 62 Brazilian IPOs during 1979 to 1990. The relatively small under-pricing of premium-listed firms' IPOs is consistent with investors' belief that these firms are more transparent.²⁵

Let us next consider recent seasoned equity offerings in Brazil. Which firms raise capital in this manner has important implications for the motive of establishing a premium listing. One would expect that firms requiring future outside financing would be most interested in lowering their cost of equity financing via a greater commitment to shareholder protection. The evidence of positive abnormal shareholder returns at the time of migration to Bovespa's premium markets or at the time of a cross listing is consistent with these actions lowering the cost of equity financing. Further evidence regarding the motive for cross listing is given in Reese and Weisbach (2001). They show that following a cross listing, a firm tends to increase its equity offerings outside of the cross-listing country, so that firms appear to perceive a reduction in financing costs arising from better shareholder protection, rather than solely a decline in market segmentation.

Table 12 provides informal evidence consistent with the notion that a premium listing reduces a firm's future cost of equity financing, because firms that require outside financing tend to establish a premium listing beforehand. Of the 33 seasoned equity offerings since the opening of Bovespa's premium markets in June of 2001, 21 of them (75 %) were by firms with a prior listing on one of Bovespa's premium markets. Eighteen of the 21 were issues of firms that migrated to a premium market while the other three were of firms that established premium listings at their IPOs. As of this writing, there are approximately 350 total companies with a Bovespa exchange listing and only 56 of them

²⁴ Renar Maçãs attracted little interest from institutional investors due to the very small size of its IPO. Submarino is a dotcom firm that was popular among retail investors .

²⁵ See Rock (1986) and Benveniste and Spindt (1989).

(16 %) have a premium market listing.²⁶ Even if we consider just the 85 largest companies included in Bovespa's IBX index, only 38 of them (45 %) have a premium listing. Hence, relative to a firm with a standard Bovespa listing, a firm with a premium one appears more likely to issue seasoned equity.

Finally, in order to appreciate the growing impact of Bovespa's premium markets, we report in Table 13 the percent of Bovespa's total trades, total trading volume, and total market capitalization attributable to firms that chose a premium listing. Each of these three statistics shows a similar pattern over the last five years. Starting in 2001, premium-listed firms' percentages of trades and market capitalization were in the middle to upper teens. These percentages have risen steadily and now stand at approximately 45 %. Shortly after establishing its premium segments, Bovespa created a Special Corporate Governance Index (IGC) that is a value-weighted portfolio of premium-listed shares. This index has outperformed other Brazilian stock indices.²⁷ By highlighting this index among institutional investors, demand for premium members' shares may be enhanced, resulting in an even lower cost of equity finance. These private developments are reasons to be optimistic that improved shareholder protection is gaining strength in Brazil.

7 – Conclusions

Several papers have stressed the roles that good corporate governance and disclosure play in the development of capital markets. In many countries, however, reforms of corporate law aimed at increasing minority investors' rights often face serious political opposition. In this environment, private contractual arrangements in the form of premium stock exchange segments are an attempt to allow firms to voluntarily commit to these non-legislated reforms. The Novo Mercado and the Níveis Diferenciados de Governança in Brazil are examples of such markets that set standards above those required by law.

²⁶ Following the ending date of our sample of migrating firms analyzed in section 5, an additional 7 firms have migrated to Nivel 1 and an additional 4 firms have migrated to Nivel 2. These firms will be included in the paper's statistical tests as data becomes available.

²⁷ In August 2005, Bovespa also created the Special Tag Along Stock Index (ITAG) composed of mostly premium-listed member firms that offer, in the event of a control sale, tag along rights that exceed those required under Brazilian law. Bovespa reports that from the end of 2003 until June of 2005, IBOVSPA, IBX, IGC, and ITAG appreciated by 121 %, 120 %, 138 %, and 218 %, respectively.

By allowing already public companies to migrate, the creation of Bovespa's premium markets constitutes a natural experiment to test the effects of adopting good corporate governance and disclosure. In this study, we found that migration tends to produce positive abnormal returns for non-voting shares and a reduction in shares' voting (control) premia. Migration to a premium exchange also enhances trading volume for non-voting shares, consistent with the notion that improved disclosure creates liquidity. These results are important because they provide evidence that the private creation of premium markets can be successful in improving investor welfare and encouraging greater capital market development.

As discussed in Coffee (2002), a motive for Bovespa's creation of its premium markets was to reverse the flow of trading in Brazilian companies shares that had moved to the United States in the form of exchange-listed ADRs. If minority protection is the primary reason for these cross-listings, our findings suggest that Bovespa's premium markets may have quelled this offshore flow. Listing on a Bovespa premium market leads to an increase in shareholder value that is similar to that of a U.S. exchange listing. Bovespa's innovation gives credence to the view that competition among the world's stock exchanges can lead to higher overall standards for corporate governance and disclosure.

8 – References

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TABLE 1

Company	Migration Date	ADR*	Type of Stock	Stock Code	Market
ALPARGATAS	07/15/2003	OTC 05/01/1994 B	PN	ALPA4	Nivel 1
ARACRUZ	04/16/2002	NYSE 03/03/1997 B	PNB	ARCZ6	Nivel 1
ARCELOR BRAZIL SA	12/23/2005		ON	ARCE3	Nivel 1
BANCO BRADESCO	06/26/2001	NYSE 11/21/2001 A	ON PN	BBDC3 BBDC4	Nivel 1
BANCO ITAU	06/26/2001	NYSE 02/21/2002 A	PN	ITAU4	Nivel 1
BRADESCO PARTICIP.	06/26/2001		ON PN	BRAP3 BRAP4	Nivel 1
BRASIL TELEC. PART.	05/09/2002	NYSE 08/01/2002 A	ON PN	B RTP3 B RTP4	Nivel 1
BRASIL TELECOM	05/09/2002	NYSE 11/16/2001 B	ON PN	B RTO3 B RTO4	Nivel 1
CELESC	06/26/2002	OTC 06/12/2002 B	PNB	CLSC6	Nivel 2
CEMIG	10/17/2001	NYSE 09/19/2001 B	ON PN	CMIG3 CMIG4	Nivel 1
CIA DE FIA CAO E TECIDOS CEDRO	10/02/2003		PN	CEDO4	Nivel 1
CIA VALE DO RIO DOCE ON	12/12/2003	NYSE 03/27/2002 B	ON	VALE3	Nivel 1
CONFAB INDUSTRIAL SA	12/19/2003		PN	CNFB4	Nivel 1
DURATEX SA	05/05/2005		ON PN	DURA3 DURA4	Nivel 1
ELETROPAULO MET	12/13/2004		PN	ELPL4	Nivel 2
ETERNIT SA	03/02/2005		ON PN	ETER3 ETER4	Nivel 2
FRAS-LE	11/11/2004		PN	FRAS4	Nivel 1
GERDAU	06/26/2001	NYSE 03/10/1999 B	PN	GGBR4	Nivel 1
GERDAU MET	06/25/2003		PN	GOAU4	Nivel 1
GLOBOCABO / NET	06/26/2001		PN	PLIM4	Nivel 1
IOCHPE MAXION SA	11/10/2005	OTC 04/01/1994 B	ON PN	MYPK3 MYPK4	Nivel 1
ITAU SA	06/26/2001		PN	ITSA4	Nivel 1
KLABIN	12/10/2002	OTC 12/01/1994 B	PN	KLBN4	Nivel 1
LIGHT	02/22/2006		ON	LIGT3	Novo Mercado
MARCOPOLO	09/03/2002		PN	POMO4	Nivel 2
P. ACUCAR-CBD	04/29/2003	NYSE 05/28/1997 B	PN	PCAR4	Nivel 1
PERDIGAO	06/26/2001	NYSE 10/20/2000 B	PN	PRGA4	Nivel 1
RANDON PART.	06/26/2001		PN	RAPT4	Nivel 1
RIPASA	11/12/2001		PN	RPSA4	Nivel 1
ROSSI RESID	01/27/2006	OTC 03/21/2000 B	ON	RSID3	Novo Mercado
SABESP	04/24/2002	NYSE 05/09/2002 A	ON	SBSP3	Novo Mercado
SADIA	06/26/2001	NYSE 12/30/2002 A	PN	SDIA4	Nivel 1
SARAIVA SA LIVREIROS EDITORES	04/07/2006	OTC 09/20/2000 B	PN	SLED4	Nivel 2
SUZANO BAHIA SUL	05/08/2003	OTC 10/01/1993 B	PN	SUZA4	Nivel 1
SUZANO PET SA	11/25/2004	OTC 01/29/2003 B	PN	SUZB4	Nivel 2
TRAN PAULISTA	09/18/2002	OTC 09/24/1999 B	ON PN	TRPL3 TRPL4	Nivel 1
ULTRAPAR PARTICIPACOES SA	10/27/2005	NYSE 10/06/1999 B	PN	UGPA4	Nivel 1
UNIBANCO	06/26/2001	NYSE 03/27/2001 B	UNT ON PN	UBBR1 UBBR3 UBBR4	Nivel 1
UNIPAR-UNIAO DE INDUSTRIAS PET SA	11/24/2004		ON PNA PNB	UNIP3 UNIP5 UNIP6	Nivel 1
VARIG	06/26/2001		PN	VAGV4	Nivel 1
VOTORANTIN CEL. PAPEL	11/14/2001	NYSE 05/17/2002 A	PN	VCPA4	Nivel 1

* Reported is the type of ADR market (OTC or NYSE), the date the ADR was first established, and whether the ADR was established before (B) or after (A) the firm migrated to one of Bovespa's premium markets.

TABLE 2
Effect of Migration on Returns
ALL SHARES

The values reported represent the cumulative percentage abnormal returns over the event windows. They were obtained from the model $R_{it} = \alpha_i + \beta_i B_t + \gamma_i X_t + \lambda W_{it} + \varepsilon_{it}$, where R_{it} is the date t return on stock i ; B_t is the date t return on the *IBOVESPA* index; X_t is the date t return on *IBX* index; and W_{it} is a dummy variable indicating the event window for stock i . These results were obtained using GLS with correction for heteroskedasticity and for random effects. The event windows tested are: Window-31 (three trading days before and one day after migration); Window-22 (two trading days before and two after migration). Only stocks traded on at least 115 of the 160 trading days around the migration and traded during the event window are in the sample. The sample includes 47 stocks (coded in Table 1) representing 39 different firms. The values in parentheses are z -statistics for the coefficient λ associated with variable W_{it} .

	Estimation Window			
	80 trading days before migration	80 trading days before and 80 after the migration	40 trading days before and 40 after the migration	80 trading days before and 40 after the migration
Heteroskedastic Panel				
Window-31	1.74*** (3.30)	1.66*** (2.81)	1.31** (2.48)	1.55*** (2.88)
Window-22	2.22*** (4.05)	1.85*** (3.16)	2.01*** (3.90)	2.13*** (4.03)
Random Effects Panel				
Window-31	1.78** (2.46)	1.94*** (2.67)	1.98*** (2.78)	1.90*** (2.69)
Window-22	1.72** (2.37)	1.90*** (2.63)	1.94*** (2.73)	1.86*** (2.64)

* Statistically significant at the 10% level.

** Statistically significant at the 5% level.

*** Statistically significant at the 1% level.

TABLE 3
Effect of Migration on Returns
ONLY VOTING SHARES

The values reported represent the cumulative percentage abnormal returns over the event windows. They were obtained from the model $R_{it} = \alpha_i + \beta_i B_t + \gamma_i X_t + \lambda W_{it} + \varepsilon_{it}$, where R_{it} is the date t return on stock i ; B_t is the date t return on the *IBOVESPA* index; X_t is the date t return on *IBX* index; and W_{it} is a dummy variable indicating the event window for stock i . These results were obtained using GLS with correction for heteroskedasticity and for random effects. The event windows tested are: Window-31 (three trading days before and one day after migration); Window-22 (two trading days before and two after migration). Only voting shares traded on at least 115 of the 160 trading days around the migration and traded during the event window are in the sample. These 12 stocks (coded in Table 1) representing 12 different firms are: ARCE3, BBDC3, BRAP3, BRTP3, CMIG3, LIGT3, RSID3, SBSP3, TRPL3, UBBR3, UNIP3, VALE3. The values in parentheses are z-statistics for the coefficient λ associated with variable W_{it} .

	Estimation Window			
	80 trading days before migration	80 trading days before and 80 after the migration	40 trading days before and 40 after the migration	80 trading days before and 40 after the migration
Heteroskedastic Panel				
Window-31	1.14 (1.45)	1.23 (1.26)	0.63 (0.78)	0.84 (1.02)
Window-22	2.61*** (3.01)	2.29** (2.37)	2.42*** (3.12)	2.53*** (3.14)
Random Effects Panel				
Window-31	0.62 (0.41)	1.13 (0.77)	1.08 (0.73)	0.85 (0.57)
Window-22	0.62 (0.41)	1.22 (0.83)	1.19 (0.81)	1.00 (0.67)

* Statistically significant at the 10% level.

** Statistically significant at the 5% level.

*** Statistically significant at the 1% level.

TABLE 4
Effect of Migration on Returns
ONLY NON-VOTING SHARES

The values reported represent the cumulative percentage abnormal returns over the event windows. They were obtained from the model $R_{it} = \alpha_i + \beta_i B_t + \gamma_i X_t + \lambda W_{it} + \varepsilon_{it}$, where R_{it} is the date t return on stock i ; B_t is the date t return on the *IBOVESPA* index; X_t is the date t return on *IBX* index; and W_{it} is a dummy variable indicating the event window for stock i . These results were obtained using GLS with correction for heteroskedasticity and for random effects. The event windows tested are: Window-31 (three trading days before and one after migration); Window-22 (two trading days before and two after migration); Window-11 (one trading days before and one after migration). Only non-voting shares traded on at least 115 of the 160 trading days around the migration and traded during the event window are in the sample. The sample includes 34 stocks (coded in Table 1) representing 34 different firms. The values in parentheses are z -statistics for the coefficient λ associated with variable W_{it} .

	Estimation Window			
	80 trading days Before migration	80 trading days before and 80 after the migration	40 trading days before and 40 after the migration	80 trading days before and 40 after the migration
Heteroskedastic Panel				
Window-31	2.16*** (3.05)	1.83** (2.51)	1.76** (2.53)	2.00*** (2.85)
Window-22	1.90*** (2.68)	1.55** (2.12)	1.62** (2.33)	1.78** (2.54)
Random Effects Panel				
Window-31	2.08*** (2.56)	2.12*** (2.59)	2.19*** (2.74)	2.18*** (2.78)
Window-22	2.06** (2.54)	2.10** (2.56)	2.14*** (2.67)	2.14*** (2.72)

* Statistically significant at the 10% level.
** Statistically significant at the 5% level.
*** Statistically significant at the 1% level.

TABLE 5

Effect of Migration on Returns (controlling for prior NYSE listing)

The values reported represent the cumulative percentage abnormal returns over the event windows. They were obtained from the model $R_{it} = \alpha_i + \beta_i B_t + \gamma_i X_t + \lambda W_{it} + \omega NYSE_i W_{it} + \varepsilon_{it}$, where R_{it} is the date t return on stock i ; B_t is the date t return on the *IBOVESPA* index; X_t is the date t return on *IBX* index; W_{it} is a dummy variable indicating the event window for stock i ; $NYSE_i$ is a dummy variable indicating whether stock i was listed on the NYSE prior to migration. These results were obtained using GLS with correction for heteroskedasticity and for random effects. The event windows tested are: Window-31 (three trading days before and one after migration); Window-22 (two trading days before and two after migration). Only stocks traded on at least 115 of the 160 trading days around the migration and traded during the event window are in the sample. The sample includes 47 stocks (coded in Table 1) representing 39 different firms. In parentheses are z -statistics for the coefficients λ and ω associated with the variables W_{it} and $NYSE_i W_{it}$, respectively.

Heteroskedastic Panel					
		Estimation Window			
		80 trading days before migration	80 trading days before and 80 after the migration	40 trading days before and 40 after the migration	80 trading days before and 40 after the migration
Window-31	W	2.17*** (2.96)	1.95*** (2.57)	1.77** (2.47)	1.95*** (2.67)
	NYSE × W	-0.88 (-0.84)	-0.74 (-0.62)	-1.01 (-0.96)	-0.88 (-0.82)
Window-22	W	1.84** (2.50)	1.51** (1.99)	1.48** (2.07)	1.63** (2.22)
	NYSE × W	0.87 (0.79)	0.84 (0.70)	1.11 (1.07)	1.05 (0.99)

Random Effects Panel					
		Estimation Window			
		80 trading days before migration	80 trading days before and 80 after the migration	40 trading days before and 40 after the migration	80 trading days before and 40 after the migration
Window-31	W	2.09** (2.51)	2.26*** (2.70)	2.37*** (2.90)	2.24*** (2.75)
	NYSE × W	-1.22 (-0.75)	-1.27 (-0.78)	-1.53 (-0.96)	-1.31 (-0.82)
Window-22	W	1.82** (2.17)	2.05** (2.44)	2.15*** (2.62)	2.01** (2.47)
	NYSE × W	-0.39 (-0.24)	-0.56 (-0.34)	-0.82 (-0.52)	-0.58 (-0.37)

* Statistically significant at the 10% level.
 ** Statistically significant at the 5% level.
 *** Statistically significant at the 1% level.

TABLE 6**Effect of Migration on Returns****Event Window: Three Trading Days Before and One After the Migration**

Cumulative abnormal returns are reported as a percentage over the event window. These abnormal returns were estimated by OLS from a market model using the Ibovespa and IBX indices as explanatory variables. The estimation window is 80 trading days before the event window. Only those stocks that traded over the entire event window are included.

Prior NYSE	Stock	Cumulative Abnormal Returns	Z-Statistic	Standard Deviation
Yes	ARCZ6 - Aracruz PNB	4.65	0.84	5.544
Yes	BRTO4 - Brasil Telec PN	3.54 *	1.40	2.526
Yes	CMIG3 - Cemig ON	-2.72	-0.45	6.099
Yes	CMIG4 - Cemig PN	-3.60	-0.69	5.250
Yes	GGBR4 -Gerdau PN	-3.75	-0.72	5.240
Yes	PCAR4 - P. Açúcar-CBD PN	0.68	0.14	4.742
Yes	PRGA4 - Perdigão S/A PN	10.33 ***	3.01	3.432
Yes	UBBR11 - Unibanco UNT	-2.19	-0.35	6.237
Yes	UBBR3 - Unibanco ON	0.60	0.60	1.007
Yes	UBBR4 - Unibanco PN	4.82	1.08	4.474
Yes	UGPA4 - Ultrapar PN	0.96	0.27	3.521
Yes	VALE3 - Vale ON	2.07	0.68	3.031
No	ALPA4 - Alpargatas PN	2.37	0.42	5.614
No	ARCE3 - Arcelor ON	3.10	0.78	3.990
No	BBDC3 - Bradesco ON	3.15	0.78	4.033
No	BBDC4 - Bradesco PN	1.76	0.40	4.436
No	BRAP3 - Bradespar ON	3.60	0.58	6.177
No	BRAP4 - Bradespar PN	3.13	0.65	4.813
No	BRTTP3 - Brasil T Par ON	0.55	0.14	4.019
No	BRTTP4 - Brasil T Par PN	0.66	0.21	3.106
No	CLSC6 - Celesc PNB	13.85 ***	2.96	4.682
No	CNFB4 - Confab PN	2.60	0.67	3.910
No	DURA4 - Duratex PN	-0.36	-0.10	3.677
No	ELPL4 - Eletropaulo Met PN	2.37	0.53	4.481
No	FRAS4 - Fra-Le PN	6.32 **	1.84	3.428
No	GOAU4 - Gerdau Met PN	-2.93	-0.94	3.123
No	ITAU4 - Itauanco PN	4.52	1.01	4.494
No	ITSA4 - Itausa PN	4.51 *	1.28	3.535
No	KLBN4 - Klabin PN	-0.14	-0.03	5.273
No	LIGT3 - Light ON	13.49 ***	2.59	5.203
No	MYPK4 - Iochpe Maxion PN	1.48	0.32	4.584
No	PLIM4 - Globo Cab / Net PN	25.79 ***	3.81	6.765
No	POMO4 - Marcopolo PN	-6.34 *	-1.61	3.930
No	RAPT4 - Randon Part PN	6.95 *	1.30	5.361
No	RPSA4 - Ripasa PN	-3.58	-0.70	5.082
No	RSID3 - Rossi Resid ON	-15.45 *	-1.51	10.264
No	SBSP3 - Sabesp ON	-0.86	-0.23	3.713
No	SDIA4 - Sadia S/A PN	8.77 **	2.20	3.989
No	SLED4 - Saraiva PN	1.18	0.22	5.301

No	SUZA4 - <i>Suzano PN</i>	2.18	0.59	3.712
No	SUZB4 - <i>Suzano Pet PN</i>	-7.70	-1.26	6.114
No	TRPL3 - <i>Tran Paulist ON</i>	6.10 **	1.97	3.096
No	TRPL4 - <i>Tran Paulist PN</i>	-1.29	-0.23	5.714
No	UNIP3 - <i>Unipar ON</i>	-3.12	-0.33	9.371
No	UNIP6 - <i>Unipar PNB</i>	-3.01	-0.72	4.151
No	VAGV4 - <i>Varig PN</i>	-5.18	-0.72	7.169
No	VCPA4 - <i>VCP PN</i>	5.42	0.97	5.586
	<i>Average</i>	1.90 ***	2.60	0.730

* Statistically significant at the 10% level.

** Statistically significant at the 5% level.

*** Statistically significant at the 1% level.

TABLE 7
Effect of Migration on Voting (Control) Premium

The voting premium was calculated as $VP_t = \frac{(P_{v,t} - P_{nv,t})N_{v,t}}{P_{v,t}N_{v,t} + P_{nv,t}N_{nv,t}}$, where $P_{v,t}$ is the price of a voting share; $P_{nv,t}$

is the price of a non-voting share; $N_{v,t}$ is the number of voting shares; and $N_{nv,t}$ is the number of non-voting shares. For each firm the voting premium was adjusted by subtracting the average of the voting premiums of all corporations in the IBX index that had dual-class shares. For each firm we report the average voting premium during the 52 weeks before its migration and the difference in the average adjusted voting premiums during the 4, 8, and 16 week periods after its migration. The second reported value is the z-statistic and in parentheses is the number of observations in the period.

	52 weeks before	<i>Differences</i>		
		4 weeks after	8 weeks after	16 weeks after
Alpargatas	0.037 (31)	0.164*** 5.942 (2)	0.164*** 5.942 (2)	0.164*** 5.942 (2)
Aracruz	-0.116 (48)	-0.059*** -2.709 (4)	-0.060*** -3.595 (7)	-0.072*** -5.723 (12)
Banco Bradesco	-0.074 (52)	-0.027** -2.101 (4)	-0.032*** -3.572 (8)	-0.038*** -5.955 (16)
Banco Itaú	0.018 (51)	-0.029* -1.598 (4)	-0.030** -2.282 (8)	-0.031*** -3.348 (16)
Bradespar	-0.022 (46)	-0.011 -0.610 (4)	-0.022** -1.819 (8)	-0.024*** -2.812 (16)
Brasil Telec.	-0.108 (50)	-0.013 -0.938 (4)	-0.009 -0.871 (8)	-0.016*** -2.378 (16)
Brasil Telec. Part.	0.007 (52)	-0.037*** -3.725 (4)	-0.045*** -6.458 (8)	-0.075*** -15.274 (16)
Celesc	0.054 (16)	-0.002 -0.092 (2)	0.003 0.244 (5)	0.031*** 2.840 (8)
Cemig	-0.029 (52)	-0.010 -0.896 (4)	-0.013** -1.662 (5)	-0.015*** -2.671 (16)
Gerdau	-0.066 (32)	0.009 0.339 (3)	0.018*** 2.544 (5)	0.014** 2.159 (6)
Gerdau Met.	-0.003 (22)	0.004 0.339 (2)	0.004 0.339 (2)	0.004 0.339 (2)
Itausa	0.142 (50)	-0.006 -0.424 (4)	-0.014* -1.424 (8)	-0.0101 -0.161 (15)
Perdigão S/A	0.052 (18)			-0.069*** -3.870 (2)
Sadia	0.122 (13)	0.048*** 5.009 (3)	0.035*** 5.135 (6)	0.022*** 4.239 (10)
Tran Paulista	-0.148 (52)	0.050** 1.783 (4)	0.082*** 4.188 (8)	0.097*** 6.972 (16)
Unibanco	0.397 (52)	0.008 0.582 (4)	0.010 0.026 (8)	0.045*** 6.454 (16)

* Statistically significant at the 10% level.

** Statistically significant at the 5% level.

*** Statistically significant at the 1% level.

TABLE 8

Effects of Migration on Volume Traded

This table presents estimates for the model $\ln(V_{it}) = \alpha_i + \lambda DM_{it} + (\beta_i + \gamma DM_{it}) \ln(VB_t) + \varepsilon_{it}$ where V_{it} is the average daily volume traded in R\$ thousands of stock i during week t , VB_t is the average daily volume traded in R\$ millions of all stocks listed on Bovespa during week t , and DM_{it} is a dummy variable equal to 1 if firm i migrated prior to week t and zero, otherwise. Two different estimation methods are used: GLS with correction for heteroskedasticity and GLS with random effects. The sample comprises the 100 trading days before and 100 days after each firm's migration. "All Shares" estimates are for 46 stocks of 37 different firms. "Only Firms with ADRs" estimates are for 13 stocks of 9 different firms. "Only voting shares" ("Only non-voting shares") estimates are for 13 (32) stocks of 13 (32) different firms. In parentheses are the regression coefficients' z-values.

	HETEROSKEDASTIC			RANDOM EFFECTS		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
All Shares						
AFTER (λ)	0.078*** (3.41)		-3.316*** (-2.90)	0.171*** (5.24)		-10.921*** (-10.39)
AFTER x ln(VOLUME BOVESPA) (γ)		0.004*** (3.47)	0.168*** (2.97)		0.009*** (5.55)	0.548*** (10.56)
Only Firms with ADRs						
AFTER (λ)	0.113*** (2.76)		6.489*** (3.04)	0.183*** (3.28)		11.094*** (3.74)
AFTER x ln(VOLUME BOVESPA) (γ)		0.005*** (2.70)	-0.316*** (-2.99)		0.009*** (3.21)	-0.542*** (-3.68)
Only Voting Shares						
AFTER (λ)	0.047 (0.90)		-10.193*** (-4.76)	0.137** (2.12)		-8.907*** (-3.61)
AFTER x ln(VOLUME BOVESPA) (γ)		0.003 (1.02)	0.503*** (4.79)		0.007** (2.21)	0.444*** (3.67)
Only Non-Voting Shares						
AFTER (λ)	0.080*** (3.11)		-0.866 (-0.62)	0.177*** (4.67)		-11.896*** (-9.36)
AFTER x ln(VOLUME BOVESPA) (γ)		0.004*** (3.12)	0.468 (0.67)		0.009*** (4.94)	0.597*** (9.50)

* Statistically significant at the 10% level.
 ** Statistically significant at the 5% level.
 *** Statistically significant at the 1% level.

TABLE 9**Effects of Migration on Volume Traded**

This table presents estimates for the model $\ln(V_{it}) = \alpha_i + \lambda DM_{it} + (\beta_i + \gamma DM_{it}) \ln(VB_t) + \varepsilon_{it}$ where V_{it} is the average daily volume traded in \$ thousands of adr i during week t , VB_t is the average daily volume traded in \$ thousands of all ADRs listed on NYSE during week t , and DM_{it} is a dummy variable equal to 1 if firm i migrated prior to week t and zero, otherwise. Two different estimation methods are used: GLS with correction for heteroskedasticity and GLS with random effects. The sample comprises the 100 trading days before and 100 days after each firm's migration. "All Shares" estimates are for 11 stocks of 10 different firms. In parentheses are the regression coefficients' z -values.

	HETEROSKEDASTIC			RANDOM EFFECTS		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
All Shares						
AFTER (λ)	0.096** (2.50)		-0.663 (-0.7)	0.007 (0.09)		-3.054** (-1.92)
AFTER x ln(VOLUME BOVESPA) (γ)		0.011*** (2.57)	0.082 (0.81)		0.001 (0.18)	0.329** (1.93)

TABLE 10**Number and Volume of IPOs in Brazil**

Year	Number of IPOs	Amount Issued (R\$ mi)
1995	2	185
1996	0	0
1997	1	100
1998	0	0
1999	1	434
2000	1	33
2001	0	0
2002	1	351
2003	0	0
2004	7	4,803
2005	9	5,348
2006	14	7,707

Source: Bovespa

TABLE 11
IPOs in Brazil Since 2001

IPOs in Novo Mercado or Nivel 2, amount issued in millions of reais (includes ADR sales) and the percentage of the issue acquired by international investors includes the percentage of the issue sold in international markets plus the proportion of issue bought in Brazil by foreign investors.

Firm/stock	Date	Market	NYSE ADR	Amount Issued (R\$ mi)	Initial Returns (%)	Acquisition by International Investors (%)
CCR Rodovias ON	2/02	NM	no	351	-1.3	n.a.
Natura ON	5/04	NM	no	768	15.6	67.2
Gol PN	6/04	Nivel 2	yes	878	5.4	75.4
ALL PN	6/04	Nivel 2	no	588	13.2	70.8
CPFL Energia ON	9/04	NM	yes	821	0.1	69.3
Grendene ON	10/04	NM	no	617	12.1	63.8
DASA ON	11/04	NM	no	437	20.0	68.1
Porto Seguro ON	11/04	NM	no	377	6.4	71.4
Renar Maças ON	2/05	NM	no	16	1.3	5.2
Submarino ON	3/05	NM	no	473	0.0	16.4
Localiza ON	5/05	NM	no	284	0.0	86.7
TAM PN	6/05	Nivel 2	yes	548	0.0	73.8
Energias do Br ON	7/05	NM	no	1,185	11.2	26.3
OHL Brasil ON	7/05	NM	no	496	1.1	70.2
Nossa Caixa ON	10/05	NM	no	954	17.6	70.5
Cosan ON	11/05	NM	no	886	15.8	72.3
UOL	12/05	NM	no	624	16.7	71.0
Copasa ON	2/06	NM	no	813	4.7	73.7
Vivax UNIT	2/06	Nivel 2	no	529	10.6	68.6
Gafisa ON	2/06	NM	no	926	29.5	72.2
Company ON	3/06	NM	no	281	18.8	63.6
Totvs ON	3/06	NM	no	460	6.3	69.4
Equatorial UNIT	4/06	Nivel 2	no	540	17.0	76.6
ABnote	4/06	NM	no	480	5.9	80.2
CSU	5/06	NM	no	341	-2.8	82.9
Brasilagro	5/06	NM	no	582	10.0	82.4
Lupatec	5/06	NM	no	452	5.0	77.7
GP investment	5/06	Traditional	no	705	0.0	77.7
Datasul	6/06	NM	no	317	-6.7	79.8
MMX	7/06	NM	no	1.118	-0.1	80.1
Abyara	7/06	NM	no	163	0	91.8
AVERAGE					7.5	68.5

Source: Bovespa and CVM

TABLE 12

Bovespa Secondary Equity Offerings

Date	Firm/Stock	Market	Total Issued (R\$)	ADR Issued (R\$)
6/01	Petrobahia		7	-
9/01	Mehir Holding		2	-
7/01	Petrobras		2,014	1,629
12/01	Nova Marlin		129	-
11/01	CBLC		243	-
3/02	CVRD		4,522	2,552
5/02	Sabesp	NM	527	157
8/02	Globocabo / Net	Nivel 1	597	-
9/02	Marcopolo	Nivel 2	95	-
2/03	Rossi Residencial	Nivel 1	80	-
4/03	CSN		414	-
7/03	Coteminas		111	-
9/03	Unibanco	Nivel 1	637	446
12/03	Votorantin Celulose	Nivel 1	745	447
12/03	Suzano		443	-
5/04	CCR	NM	375	-
9/04	Weg	Nivel 1	319	-
9/04	Braskem	Nivel 1	1,211	807
9/04	Sabesp	NM	688	501
12/04	Gerdau	Nivel 1	413	-
12/04	Gerdau Met.	Nivel 1	88	-
12/04	Bradespar	Nivel 1	1,045	-
12/04	Suzano Pet.	Nivel 2	179	-
1/05	Unibanco	Nivel 1	718	-
3/05	ALL	Nivel 2	645	-
4/05	Ultrapar		362	137
4/05	Gol	Nivel 2	594	451
6/05	AES Tietê		231	-
6/05	AES Tietê		829	-
7/05	Lojas Renner	NM	886	-
9/05	Unibanco	Nivel 1	1,765	1,310
9/05	Bradespar	Nivel 1	505	-
9/05	Cyrela	NM	902	566

Note: **Market** indicates the market in which the firm was listed at the time of the offering.

Source: Bovespa and ANBID (Brazilian Association of Investment Banks)

TABLE 13**Participation of Premium Listed Companies (%)**

Year	Number of trades	Volume Traded	Market Capitalization
2001	15.9	14.3	19.1
2002	24.0	24.5	23.3
2003	28.0	24.5	35.4
2004	35.4	33.8	39.0
2005*	45.2	44.8	44.8

*October 2005

Source: Bovespa

APENDIX: Rules for Admission to BOVESPA's Premium Markets

BOVESPA lays down a series of standards for the conduct of companies, managers and controlling shareholders considered as important for valuation of shares and other assets issued by the company. The adherence to these practices distinguishes a company as either Nivel 1 (Level 1) Company, Nivel 2 (Level 2) Company, or Novo Mercado company, depending on the degree of commitment assumed by the company.

All these rules are consolidated in the Listing Regulations, the adherence to which is voluntary. The commitment entered into by the company, its controlling shareholders and its management are signed via a contract to which these entities and BOVESPA are parties.

Nível 1

Nível 1 companies largely undertake to improve methods of disclosure to the market and to disperse their shares among the largest number of shareholders possible. Thus, the principal practices required of a Nível 1 company are:

- maintenance of a free-float of at least 25% of capital;
- holding of public offerings for placing shares through mechanisms that favor capital dispersion to a broader spectrum of shareholders;
- improved disclosure of quarterly information including the obligation of reporting consolidated figures and special audit revision;
- adherence to the disclosure rules for transactions involving assets issued by the company on the part of the controlling shareholders or company management;
- disclosure of shareholder agreements and stock option programs;
- provision of an annual calendar of corporate events.

Nível 2

To be classified as a Nível 2 company, in addition to the obligations of Nível 1, the company and its controlling shareholders must adopt and observe a much broader range of corporate governance practices and minority shareholder rights. In summary, the criteria for listing as a Nível 2 company are:

- a single one-year mandate for the entire Board of Directors;
- the annual balance sheet to be made available in accordance with US GAAP or IAS;
- granting to all holders of common shares the same conditions obtained by the controlling shareholders on the transfer of the control of the company and 70% of this conditions for preferred shareholders (partial tag along);
- voting rights granted to preferred shares in certain circumstances such as transformation, incorporation, spin-off and merger of the company and approval of contracts between the company and other companies of the same group;
- obligation to hold a tender offer by the economic value criteria should the capital be closed or registration as a Nível 2 company be cancelled;
- adherence to the Market Arbitration Panel as the vehicle to resolve corporate disputes.

Novo Mercado

To be listed in the Novo Mercado, besides all the obligations established to enter Nivel 2 the firm must issue and list only voting shares (common stock).