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Ms. Carla L. Rosati  
Executive Director  
SEC Historical Society  
1101 Pennsylvania Avenue, NW, Suite 600  
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Dear Carla:

I am enclosing the diary I kept for three months while I was in Brazil in 1966 as a consultant to the Central Bank of Brazil on implementation of the Capital Markets Law, which Brazil had enacted a year earlier. I am also enclosing a list of most of the people mentioned in the diary. During the time I was in Brazil I was on loan from the SEC to USAID, who paid my salary while I was there (in fat piles of inflation-depleted banknotes).

I came across the diary while throwing out a lot of old stuff in my apartment. I had completely forgotten that I had kept a diary. I think it shows quite an interesting picture of the challenges faced by a consultant in a foreign country: finding counterparts to work with, the ambivalent attitude of foreign regulators toward U.S. advisors, language difficulties, etc. Despite the frustrations, I look back at my time in Rio de Janeiro with pleasant nostalgia. The article mentioned in the diary that I planned to write was published later that year: "Securities Regulation in Developing Countries: the Brazilian Experience," 52 Virginia L. Rev. 1283 (1966).

My wife and two children, aged five and two, were with me in Rio de Janeiro. I have not redacted the limited amount of personal material in the diary, since it gives some idea of such mundane matters, inherent in working as a consultant in a foreign country, as finding a place to live, finding a school or kindergarten, and social life. As to the latter, the Cariocas (Rio residents) are the friendliest people in the world, and we had frequent contact with them outside working hours.

I hope you will find this material interesting for the SEC Historical Society. Please let me know if you have any questions.

Sincerely,

Norman S. Poser

Enc. (2)

## **List of Persons Mentioned in Norman S. Poser's 1966 Brazil Diary.**

Aguiar, Amados. Controlling person of the Sao Paulo bank, Banco Brasileiro des Descontos.

Bevilaqua, Murilo. Head of the department of the Central Bank of Brazil with responsibility for securities regulation.

Bulhoes Carvalho, Antonio. Brazilian lawyer and member of the working group with whom I drafted regulations for the Central Bank.

Campos, Roberto. Brazilian Minister of Finance (?).

Cary, William. Professor at Columbia Law School, who had been SEC Chairman 1961-64.

Cohen, Manuel (referred to in the diary as Manny). SEC Chairman.

DeLuca, Frank. American investment banker working in Rio. A partner of John Shroy.

Drew, Pat. USAID official in Washington, D.C.

Karl, Beverly. Lawyer at the USAID Mission in Rio.

Leitão de Cunha, Pedro. Brazilian investment banker and member of the working group with whom I drafted regulations for the Central Bank.

Lemann, George-Paulo. Brazilian investment banker.

Levinson, Jerry. USAID official in Rio.

Lutey, Kent. Official at the USAID Mission in Rio who was my principal contact there.

Nogueira, Denio. President of the Central Bank of Brazil, which had responsibility for securities regulation.

Nogueira, Ronaldo. Brazilian investment banker.

Roth, Allan. Lawyer with whom I made a preliminary consulting visit to Brazil in October 1965.

Shroy, John. American investment banker working in Rio. A partner of Frank de Luca. In the mid-1960s, Shroy developed a detailed plan for an electronic stock market in Rio, which I don't believe was implemented.

Trubek, David. Lawyer at the USAID Mission in Rio.

Waddington, Ary. Brazilian investment banker and member of the working group with whom I drafted regulations for the Central Bank.

Jan. 29, 1966

Arrived in Rio non-stop by jet from New York. Less than 9 hours. Met at the airport by Beverly Karl of Lutey's office (AID Mission) as well as Murilo Bevilaqua of the Central Bank.

Last night Carlos Santos of BNDE and Ronaldo Nogueira saw us off at Kennedy. Ronaldo has left the CB and is with Invesco, a Rio financial company. Now both he and Carlos are on a "training" program for 9 months in New York. I get the impression that it's going to be a lark for them. Is AID money going into this? Ronaldo will get \$900 per month. Ronaldo says nothing has happened in the Brazil market regulation since I was there last October. This was confirmed by Murilo, who said that a number of rules have been approved by the National Monetary Council, but none has been adopted yet. Murilo says no work will be done in the next few weeks because the Capital Markets section is moving to new offices, which he pointed out to me in town. Also, Carnaval.

Beverly handed me a copy of a letter Allan Roth wrote Lutey, saying he wants to come down. I understand that this has already been approved – for 2 months. The letter has a good deal to say about me – nothing very bad – an indirect accusation of dogmatism. Also, he and I "cross-fertilize" each other. I haven't seen this. Monday I guess Lutey will want to talk about this.

I told Murilo that I would like to start by getting the views of the interested persons (Waddington, Pedro, Serge Ribeira) on the report.

We are staying at the Gloria Hotel. We already looked at one furnished apartment. Not great, in Copacabana, for \$350. But we could have it for only 5 months.

### Jan 31

Saw Lutey in the morning. He seems less than enthusiastic about Allan coming down, thinks his letter to Lutey was impertinent. The decision will be delayed for a while. In any case, he won't come for more than 2 months. Lutey says that the markets have been operating about the same as when I was down. In São Paulo, about 70-80% of the business is in letras de cambio. In Rio it's somewhat less. Lutey also said that the Brazilians aren't quite ready for me. I'm not sure why. A phone conversation with Murilo confirmed this. So in the afternoon we used our car to drive to look at an apartment a few feet from the beach at the far end of Copacabana – Rua Joaquin Nabuco, 11, Apt 306. Not bad, but its chief advantage is its location.

Now I have to arrange for the lease, which apparently the Central Bank will sign with the landlord. I'll try to work on it tomorrow. Having nothing else to do, I looked up Jerry Levinson and Noel Marsh, but neither was in. Pat Drew's letter to Levinson arrived, I learned from Dwight Johnson, who works with him. According to Johnson, it said I would be interested in getting into some of the work of the mission. This may pose some problems, since Lutey said that the CB may be unhappy if I took a language course in the morning, since I wouldn't be working for them. In other words, they want me full time. So tomorrow I'll try to find out where my office is and whether I can see the regulations that have thus far been promulgated.

Yesterday we swam at Copacabana and in the hotel pool. Sam & Suz are both red in the face, back, and arms, and enjoying themselves. Sleeping together in one room – like Daddy & Mummy – is great fun, and that's what it will probably be like for 6 months, since our hopeful new apartment has only 2 bedrooms. Dinner yesterday at the Ouro Verde; it didn't seem so good as last time, either in food or service.

#### Feb 1

Same accomplishments today: We are set to move into the apartment tomorrow morning. We will also get a "household kit" from the Embassy. Also, we may have a maid, a 32 year-old widow who lost everything in the floods last month. Also, I moved my books over to Murilo's office, where I will have a desk until the Capital Markets Section of the CB moves, in 15 days. Now I'm trying to get copies of the regulations that have been drafted. I hope to have a meeting with Denio Nogueira (one was promised for this afternoon but somehow didn't happen). Murilo says we'll have a meeting of Waddington, Sergio, and perhaps Pedro Leitão da Cunha. Murilo also says he suggested not starting until after the move to new offices. The meeting with Denio may be interesting – I plan to tell him that I want to stay in close touch with industry people. I'm a little afraid that Murilo would like to play the thing close to his chest and avoid bringing investment companies, brokers, etc. into rulemaking.

#### Feb 2

Today we moved to the apartment. Problems with electricity, gas, and running toilets, but it is at the beach, and in the middle of a really pleasant neighborhood.

In the afternoon I ran into Raymond Demoulein, who told me that nothing has happened since I was here last. Murilo is keeping everything close to himself, and so is Denio Nogueira. The exchange bill market is flourishing, despite the governments efforts to end it. I talked to him about making a trip to São Paulo, perhaps next week, to talk to some of the investment people there, and perhaps also to Porto Alegre. Raymond has not seen the report. When I went to the CB, at about 4 pm, Murilo was working on a report on the Mannesmann matter, which the Finance Minister had asked for by 6 PM. He arranged a meeting at 9:30 am tomorrow, at my request. Then I went to see Pedro Leitão de Cunha, who didn't even know the report was written. He said that Denio and Murilo have withdrawn into themselves, and that industry isn't told what is happening. For example, the required capital of finance companies was recently raised from 50 million to 800 million cruzeiros without anyone being consulted. The bank regulation people of the CB did it, and not even Murilo knew in advance. He was unhappy about this. Denio even disagreed with the step, according to Pedro, but went along with it. Pedro thinks that the capital markets haven't done well lately because of the competition from the adjustable government bonds which are tied to the rate of exchange with dollars. They are just too attractive. In November alone, 67 billion cruzeiros of these were sold, largely to companies and institutions seeking short-term use for excess funds. The bonds are for 1 year but can be redeemed earlier at an interest rate of 6-12%.

Pedro thinks that the most valuable thing that I can do is help provide mechanics for the distribution of securities. He doesn't think the exchanges are very important. In answering the same question, Raymond thinks that the exchange reforms are important. (He also mentioned the "open company" rules).

What I think I must do is to get the report to the industry, have a committee formed, and then get reactions. Then choose an area to concentrate on and do one or two things in the six months allotted for the project.

### Feb 3

Not much happened today, except that my meeting with Denio apparently was postponed. I arrived at Murilo's office at 9 a.m. Only the secretary was there. At 9:25 I asked whether Murilo was coming. Only then did I find out that the plans were changed. The rest of the day was spent looking at apartments. This one is noisy, dirty, and nothing seems to work. So now

we have a new apartment, not far away, on the 9<sup>th</sup> floor. We will move out of here on Saturday, if all goes well.

#### Feb 4

The new apartment is set. In addition, we will get 2 air-conditioners from USAID. We move tomorrow. Monday I'm supposed to see Denio. Today I saw Dave Trubek, who is working with Charlie Goldman on a project for legal education in Brazil. Jerry Levinson, head of capital development here, has been out sick for 3 weeks, so I haven't got to see him. Next week the work begins in earnest.

#### Feb 7

Met with Denio and Murilo this morning. Told Denio I thought report should be exposed to securities industry (ADECIF in Rio, ACREFI in São Paulo) and that we would then meet with industry to get their reaction. Also with exchanges. Denio said he would send copies of report to SP today, and told Murilo to get it to Rio people. Meeting with Rio people (ADECIF) may be tomorrow p.m. Meanwhile, Murilo's office is translating it into Portuguese. Denio said he liked report. I asked him for drafts of regulation. He gave me the regs defining "open companies" and setting up investment banks. The National Monetary Council plans to approve them tomorrow p.m., so I have been going over them this afternoon at evening, and plan to give Murilo comments tomorrow morning. The open-company regs are not as stiff as they had been in October but still contain the objectionable trading-volume standards. The investment banking regs don't make it clear whether other firms can participate in activities, such as selling exchange bills, and, if they can, under what conditions.

All in all, we moved ahead today. Next week I go to SP for 3 days. Then back for Carnival. Had lunch with Kent Lutey, who emphasized the need to be tactful with the Brazilians. This was after I told him that I took directly to Denio the things that I couldn't advance with Murilo, such as getting a meeting or seeing the regulations. He's right – I'm going to have to make the thing go with Murilo, tho it won't be easy.

Feb 9

Yesterday I had lunch with Frank de Luca of SNI. Today I looked up Marcus Mello + George-Paulo Lemann of Invesco. The general picture I get is of nothing being done since I was here, and of a hardening of attitude on the part of the Rio exchange and the credit companies. The latter are trying to undo the CB's determination (expressed in the statute) to make holders of exchange bills identify themselves by 1/1/67. The stock exchange recently elected a new president, who is determined to allow no changes in the status quo. So the assumptions made in October that the share business is going to grow and that the exchanges will play a bigger role have been thrown into doubt. What may have been easy to accomplish a few months ago now may be very difficult. On the other side of the story, the Monetary Council yesterday apparently approved regulations on investment banks and defining "open companies." This may show that the government is determined to start doing something now. Also, I met a member of the future "staff." He is from Curitiba and will start working after Carnaval, but will go back to Curitiba after 2 months. What sense it makes, I don't know, since what has to be done is to build up a staff in Rio.

Heard a rumor today that Denio Nogueira is to be replaced by Luiz Biolchini, who I met when I was here last.

The Invesco people stressed the lack of regulations. Issues are brought out at the risk of their being declared illegal, once the regulations come out. They also are willing to start their own exchange. They said that Lacerda, the former governor of Guanabara, who now has an investment company, would like to do it too. I told them that I thought it would be better to provide access to the existing stock market and concentrate everything there. They agreed, generally.

Feb 14

Saturday morning we went to Petropolis to visit Dave Trubek. A rather chilly reception from his wife. We left Sunday morning.

Problems remain with getting started at CB. Right now several regulations seem to be in draft form. Hard to know whether there are some I haven't seen. This evening I see Pedro Leitão da Cunha and Ary Waddington for dinner. We may start working together informally on

regulations, but there is still the problem of Murilo. Kent Lutey offered to see Denio about this problem (or ask Ellis to go) if nothing happens by a week after Carnaval.

Had lunch with John Kauffman today; talked about FUNDECE and the standards for “going public” that borrowers must meet. Should they be the same as the “open company” standards, now apparently adopted by the Monetary Council. All other things being equal, yes; but the requirement of 500 stockholders may be too high for FUNDECE’s purposes. This afternoon I read Ben Spiro’s report on Intermediate Credit Institutions – not very good.

Meanwhile, I’m reading “The Strategy of Economic Development,” by Albert Hirschman. Very fine.

### Feb 19

Yesterday I returned from a 3-day trip to São Paulo. Started Wednesday morning with a very good session with representatives of ACREFI and the SP Stock Exchange, in which they commented on each of the recommendations of the report. In general the reaction was favorable. Also met with the whole SP Exchange, in a session held entirely in Portuguese. Also decided to resume Portuguese lessons right after Carnaval. Not speaking it is a big hindrance + even almost humiliating. The lessons in Washington were disappointing, since I still can’t get along in a conversation of any complexity at all.

In SP, visited Santista, Villares + Estrella – 3 SP industrial companies – talked about shareholder relations, disclosure, dividends, financing. At Estrella, a toy factory, I visited the plant. Returned yesterday afternoon to find the 2 air-conditioners being installed in the 2 bedrooms. What a relief; the temperature was 102 yesterday in Rio.

I’m beginning to think that the emphasis during my stay should be on corporate practices – disclosure, etc. – rather than on developing the markets themselves directly. Cary may have been right when he said, “What’s the use of talking about a stock exchange when nobody trusts anyone outside his own family?” Fiddling around with the trading system may be fun, but it’s doubtful whether much can be changed and even if it were it might not do much good. The basic climate has to be changed. Perhaps we should start with the companies. Besides this, perhaps we should write registration requirements and basic conduct rules (fraud in selling securities, churning, non-suitability) for brokers.

At lunch yesterday at the Jockey Club with Herbert Cohn, a SP securities dealer, I got some examples of conduct in the securities industry:

1. Touting of securities by means of newspaper articles, where the author (Lemann of Invesco) is connected with the Company. This fact is not disclosed.
2. A couple of days ago, a broker left town with a substantial amount of money of customers or other brokers. The stock exchange claims that the deposit (20 million cruzeiros, I believe) that the broker has to put up isn't available to meet claims because it is merely designed to pay off claims against (or by (?)) the broker's employees.
3. With the market in a stock at 1900-1950, Cohn gave a customer's order to Barros, a SP broker, to sell 2000 shares at 1950, to be executed in Rio. Through a mistake of someone in the SP broker's office, the order was transmitted at 1550, and it was executed in Rio at that price. Since the market was about 1900-2000 for the last 2 months, someone ought to have known that the price was wrong. The Rio exchange refuses to cancel the transaction.
4. In several recent distributions, a group has "unofficially" sold short, staging bear raids by selling at successively decreasing prices. In the case of Estrella, Cohn was prepared and squeezed the shorts by insisting on fulfillment of his contracts to buy, when he realized that the "pool" had contracted to sell more rights than existed at the time. A price was finally agreed upon.

After my trip I have somewhat more respect for Murilo. He has a difficult job and he seems to be taking it on without qualms. He likes the limelight, but after all, he's entitled to it. It's his market, not mine. Next week we see the Rio exchange people and ADECIF – after Carnaval. Meanwhile we're going to the Municipal Ball, Escolas de Samba.

Hirschman's idea that under-developed countries should undertake difficult tasks requiring great skills, since these things have to be done well, may have application to the securities field. It makes me think that perhaps we should take another look at the SNI automation plan.

## Feb 28

By definition, a diary should be written every day. This one is getting to be weekly. Not that there's so much to write. The CB has failed to provide a staff or a decent place to work. I

still share Murilo's office. Today we met the Rio exchange for the first time. The discussion was chiefly in Portuguese, with me calling for translations. In any case, they presented their reaction to my report in a 2-page document, which is being translated. They need 18-24 months to open up memberships in the exchange, but commission rates should be increased immediately. Afterwards, lunch in a rather uncomfortable atmosphere, at the Rio Country Club downtown. I took an hour in the afternoon and drafted a short selling rule.

Today I sent off a letter to Cary saying I want to teach in a law school. I'm not really sure about this. Meanwhile I must get to work on a law review article on securities regulation in under-developed countries. The U. of Va. L. Rev. has promised me a spot for it this winter – the second delay they've put up with.

Started Portuguese lessons this morning, with a Senhora Machado in Leme. 8:30 every morning (5 times) for 20,000. Today we got the application forms to join the Caisaras Club – enough of the beach. We're also getting close to sending Sam to a kindergarten. All the time I wonder what I'm doing here. Today I requested having an interpreter present for future meetings. Three hours of nothing but Portuguese is pretty boring.

Last week I gave Murilo written comments on the proposed disclosure rule. When will it be adopted?

I haven't said a word about Carnaval – a disappointment, perhaps because we never got in the spirit.

### March 1

Today I wrote Murilo memos giving comments on Waddington's proposed stock exchange rule, dealing with record-keeping, executions, and commissions; and setting out a registration requirement for all firms in the capital market. Tomorrow I will give him one on the idea of a complaint office, which I tried out on Lutey and he liked.

Lunch with Ary Waddington. Afterwards we went over to the lawyer Bulhoes Carvalho, who says he's eager to work on new rules. We meet again Friday at 10 A.M. I hope this won't be regarded as going over Murilo's head, which Lutey seems to be worried about. I asked Bulhoes about problems of rulemaking under the Capital Markets Law. He said that when the law was passed the job was to convince Congress that the rule-making power granted the Monetary Council was not a delegation of power – which of course it is. Bulhoes says this kind

of power has never been granted before, so the only thing to do is to be bold, and then see what the courts will do. He said he couldn't answer my question whether something as general as Rule 10b-5 would be upheld. Murilo has said that you can't punish a man under Brazilian law unless the specific conduct complained of is prohibited. Court precedents have little or no force.

Sam is going to a school called Juco e Chica, starting next Wednesday. The cost is very high for Brazil – about \$30 per month, including transportation. Also, we've joined the Caisaras Club – 100,000 cruzeiros per 3-months.

Spoke to Lutey about the CB problem. He will probably see Denio at the end of next week, after Denio gets back from a trip to London. The CB's agreement to provide a staff for me to work with has been breached, so Lutey thinks we should act.

### March 3

Spent the morning with ADECIF, getting their reaction to the recommendations of the report. In general, favorable, but surprising objection to corporate disclosure (on grounds that firms would claim they have government approval) and stockholder democracy (not ready for it yet). I took notes of what I could understand. At lunch, I refused to comment on the 2 rules (open capital and investment banks) that the government has already adopted. This was just as well, since the press was there.

Trying to get started on the law review article – don't even have a theme. Perhaps a broadly descriptive piece, describing the efforts to build a stock market will be the only thing possible. I really have very little material to work with. I will have to depend on conversations, filling in more and more material as I go along.

### March 5

Yesterday, I met with Ary, Pedro, and Bulhoes to discuss the stock market regulation. We agreed to include provisions on organization and membership of the exchange, as well as members' record-keeping and executions. I am going to work on the membership provisions, and we will meet again next Thursday. It is good to be working on something. Had lunch with Pedro, Ary and an English-speaking investment man, whose name I didn't catch. He painted a pessimistic view of the situation and said that the government has lost its momentum. I also understand that the Finance Minister assured the head of ADECIF that a compromise would be

found on the question of identification of holders of exchange bills by 1/1/67. Pedro tells me that Denio Nogueira is under great pressure, not just on the exchange bills. A lot of people, including some bankers, are trying to get him out. They don't like his anti-inflationary measures.

### March 7

Among the talk at lunch last Friday: nobody in Brazil has ever gone to jail for passing a bad check. The Rio stock exchange member who absconded owing his customers a large sum has now returned and is in business again. This is the 3d time he has done this – he still owes people from last time. Inflation will reduce his debts – he will give his creditors promissory notes. They can only accept them. It is a common trick to fail to pay suppliers, then pay them back after inflation has done its work.

Today I drafted a rule on exchange membership for our meeting on Thursday. I included a provision barring from membership persons who have been bankrupt or insolvent or who have compounded with their creditors in the last 10 years. The idea is taken from the Indian rules.

Met Henry Patton of Deltec (NY), who is in Rio to start the BID project of surveying Latin American stock markets. Jean Soublin of Deltec told me that there have been a few offerings in recent months, besides the unsuccessful Arno, Mesbla, and Isabella offerings in the fall. Two are Cimaf and Artex. I must find out more about this. Apparently Cimaf has been waiting for Murilo's approval since January. Soublin says he calls Murilo every day about it. Also, one change made by the capital markets law is that offerings need not be at par. Or rather, if they are made above par, the difference is no longer taxed.

Gave Lutey my interim report on my project, suggesting that Denio be goosed on the staffing and office-space problems. Told Lutey that the problem is really Murilo, who doesn't ask for advice and probably resents me. Lutey said that Murilo was in the registration of foreign capital section during the height of the nationalistic period.

Decided to get to work on my article by putting everything on filing cards.

### March 10

Returned from Sao Paulo yesterday after a 2-day trip. Murilo made us miss the plane, later got to 2 meetings 1¼ and 1¾ hours late. Let them wait, he said. Spent an interesting morning yesterday at the Banco Brasileiro dos descontos, at its company town of Cidade de Deus

outside Sao Paulo. Amador Aguiar, the owner, looks like a thinner, younger Morris Ernst, runs it with an iron hand, has a small zoo right outside the administration building, with tapirs, emmis, deer, etc. The emmi is like an ostrich but smaller. Aguiar has a holding company that owns about 45% of the company's voting stock. This holding company controls the price of the stock on the exchange. By far the majority of the trading, however, takes place off-board. The bank requires borrowers to purchase stock (it's in the by-laws, I understand) and it will buy back shares that are offered, at a price close to the exchange price (set by Aguiar). Aguiar says he tries to keep the price down so people won't lose money on fluctuations. He wants to see everyone make money. 95% of stockholders are depositors. The place is very pleasant.

Also found out that Souza Cruz, probably the bluest of blue chips, may not qualify as an open company because it doesn't have 500 stockholders owning between 100 and 20,000 shares. So something will be worked out whereby Deltec will distribute shares so it meets the standards of the rule.

Heard today that the government (National Monetary Council) this morning decided on an alternate method of financing to the letras de cambio. It involves notes that will be issued by the Central Bank to credit companies, with a monetary correction factor based on the dollar exchange rate. The credit companies will sell the notes to the public and deposit the money with the Central Bank, which will establish a line of credit with the credit companies, who will do the same with companies needing financing. The latter will collateralize the loans with duplicatas (accounts receivable). Buyers will not have to identify themselves. In this way private financing will "compete" with treasury notes. According to Pedro, the idea is to make these 6-month loans. This will knock all hope out of the stock market, since people will wish to buy these things. In this way, the reason for requiring identification of buyers of letras de cambio has been undercut.

Had another meeting with Bulhoes, Pedro, + Ary – on the stock exchange regulations. Began gathering material together for my article.

Sam started school yesterday, didn't like it. Miriam didn't either. Only one teacher for 25 children (only 3 girls), not enough to do. But Sam went back today after much hesitation, and this evening wasn't talking about it. Looks as if he'll go back tomorrow. Rained for 4<sup>th</sup> or 5<sup>th</sup> successive day.

### March 13

Yesterday I bought a record player by answering an ad in the Brazil Herald. A Pilot, with a Garrard turntable, for \$25. Took Sam out to the house of the seller, named Charles Seibert, a very interesting man. He said, as Cary had, that the problem here is with the companies, rather than the stock market itself, that people don't trust anyone besides members of their own family. He told me about companies putting out misleading information, making it very difficult for stockholders to collect their bonus shares. In Brazil generally, he said that he expected a revolution in June – Costa e Silva taking power so as not to have to resign from his post as War Minister 3 months before the election, as required by Brazilian law. Seibert thought that Campos would be the fall guy in the revolution. He feels that the Brazilian so-called elite doesn't like the U.S. and is merely getting all they can out of us, but that the Brazilian people basically like Americans. He thinks that Brazil's problems won't be solved until there's a civil war, to get rid of the grasping elite. (Seibert is evidently a wealthy man who lives off his income – he talked of building a house in Florida along the same proportions as his house in Rio.) Seibert also said that, regardless of what is written in their laws, the Brazilians follow custom + ignore the law. There are tariffs, smuggling and searching of trucks going from state to state, although the Brazilian Constitution forbids such tariffs. Such red tape makes business difficult; for example, it is very difficult to divert a consignment of goods in interstate commerce, because all kinds of forms have to be filled out and approved. Had a very warm and pleasant talk with Seibert and his wife who showed Sam her music boxes, let him talk into their tape recorder, and treated him as an intelligent person.

On Friday I had an interesting talk with Murilo, who told me that he is going to ask officially for Allan Roth to come down. I asked him about getting a staff, and he said nothing can be done until we move to the new building. We went to look at it, Murilo lovingly taking me thru all the offices. It will probably be a few weeks before we move, since there's plenty of partitioning + painting left to do. Then we will get some staff but they will be clerks, whom I will supposedly train in working on registration statements. The whole thing is ridiculous. Later, talked the thing over with Lutey, who feels it is a serious problem, but doesn't know what he would say to Denio. Lutey suggested that I sound Murilo out by suggesting that my office needs me. The only trouble with that is that I earlier talked to Murilo about the CB paying for my food and he said that he didn't think that was in the agreement. If I do as Lutey suggested,

Murilo may think it's because of that, so we will get the food problem settled first. In any case, I'm beginning to think about not staying the full 6 months.

Lunch on Friday with Dave Trubek and 2 Brazilian lawyers, one who does legal work for the Embassy named Gabriel, and the other a specialist in administrative law named Caius Tacitus, (or a Portuguese equivalent). According to him, Brazilian law is largely a matter of reading the statutes since precedent doesn't mean much. Rules do not have to be as specific as I had thought they did. The line between a grant of rulemaking power that is valid and a delegation of power that is forbidden by the Constitution is very thin. Had lunch at the top of the French embassy. Lobster thermidor – magnifique.

Since yesterday the water has been cut off, except for 10 minutes 2 or 3 times a day. We have the bathtub and several pans full of water. Today I began to get a sore throat + fever. Began dosing myself with an antibiotic which can be bought at the drug store without a prescription.

### March 19

Returned today from a 3-day trip to Recife. Much poverty, beautiful beaches, much that's lovely – the jangadas coming in from fishing, the markets. Attended a 5-minute session of the stock market. The exchanges of most Northern and Northeastern states sent representatives to the meeting. These states really have no stock markets. The brokers make their living out of sugar brokerage, etc. They want the government to help them with a publicity campaign and meanwhile continue to require new companies to pay fees to the exchanges. Apparently, this is all that has kept them in existence. The government has put off effectiveness of a decree, under the capital markets law, that would end this. I told them that perhaps they ought to forget about stock exchange business for the time being, since it's of no economic importance to them. At the meeting on Thursday, Murilo told them that the smaller exchanges would probably be extinguished. He's probably right, but it seems tactless.

Relations with Murilo are getting worse. He clearly doesn't want advice, has never asked for it – so my function is sort of doubtful. The question is what to do:

1. Quit
2. Continue in the same way
3. Speak to Murilo

4. Stay, but work with Pedro, et al, + not M.

I'll probably try 4, if it works out; if not, I'll have to speak to Murilo, and if that has no effect, I'll quit. Meanwhile I'll work on my article.

Before going to Recife, had a little flap with Lutey. On Monday he told me that, last Friday, when he mentioned the lack of staff to Murilo, Murilo reminded him that he told Lutey that the CB didn't want me until April. Lutey then told me that this was true and it was passed on to Washington. He implied that I was the one chiefly interested in coming down. Later, Lutey took this back, when the files showed no sign that Lutey had passed on the April request to Washington. Lutey said he didn't pass it on, but by the time Murilo said this the whole thing had been arranged between Denio and Lutey. This may be true, but anyway, I think that relations between me and Lutey may be strained for a while.

#### March 26

During the past week, the situation has definitely changed for the better. The group of Pedro, Ary, and Bulhoes Carvalho met 3 days running, and we have the stock exchange regulation well along now. On Monday I had lunch with Pedro, and he suggested that we try to formalize the group to get it out of Murilo's clutches. Bulhoes called Roberto Campos, who said there should be no formal group, but that he would personally introduce the regulation to the Monetary Council. Aside from the problem of smoothing over such a procedure with Denio, this seems good. On Friday, Frank de Luca told me that there's a movement afoot to substitute Sergio Ribeira for Murilo. Denio would go along with it, but Sergio won't be approached until next week.

This morning's paper seems to indicate the Monetary Council has adopted some regulations proposed by the stock exchanges, which I don't understand at all.

Had a talk with a man named Jose Vargas who is complaining about behavior of company managements. The abuses that he spoke of are confirmed by Shroy and de Luca. That is perhaps where the most can be done, and I wrote to Gene Rotberg to send me a book of corporate law (Cary-Baker). Perhaps the introduction of stockholder derivative suits would help. Bulhoes Carvalho seemed interested.

Social life picking up too. Dinner at Country Club Thursday with the Invesco boys and Werner Baer. Marcos Mello is a very nice fellow. Perhaps we will see more of them. Last night we went to Maria's Inn, a discoteque, with Ary Waddington and his wife Martha. Also saw the Trubeks last Tuesday evening. Next Friday to dinner to Pedro and later to Porão 73. Last night we wanted to get into Le Bateau – impossible. At 3:30 we went home, while the others tried again.

Wrote to Manny for first time. Heard from Cary. I'm really not sure about the teaching thing.

#### April 4

Saw Denio Nogueira, for the first time in about 2 months. He said that the work I am doing with Ary and Bulhoes Carvalho is what is of value, which corresponds to my own opinion, and frees me from Murilo's authority. All of this is fine with me.

Last weekend we went to Le Bateau, the big discoteque that nobody can get into. It took a PR man to get us in. We didn't get there until 3 am, after a dinner party at Pedro's , and we stayed until 5 a.m. Not as good as the smaller Kilt Club.

#### April 21

Office moved yesterday – finally. I have a nice office. Sam had a birthday party at school. Today we leave for Ouro Preto.