

BM&FBOVESPA – The Brazilian Exchange

ACSDA XIX General Assembly 2017

April 5th – 7th, 2017

La Paz, Bolivia

Visit the BM&FBOVESPA website

www.bmfbovespa.com

Overview of Brazilian Capital Market

Developments

Capital and derivatives markets in Brazil

and solid regulation

- CVM – Trade and post-trade
- BACEN – Post-trade , banks and intermediaries

Main participants

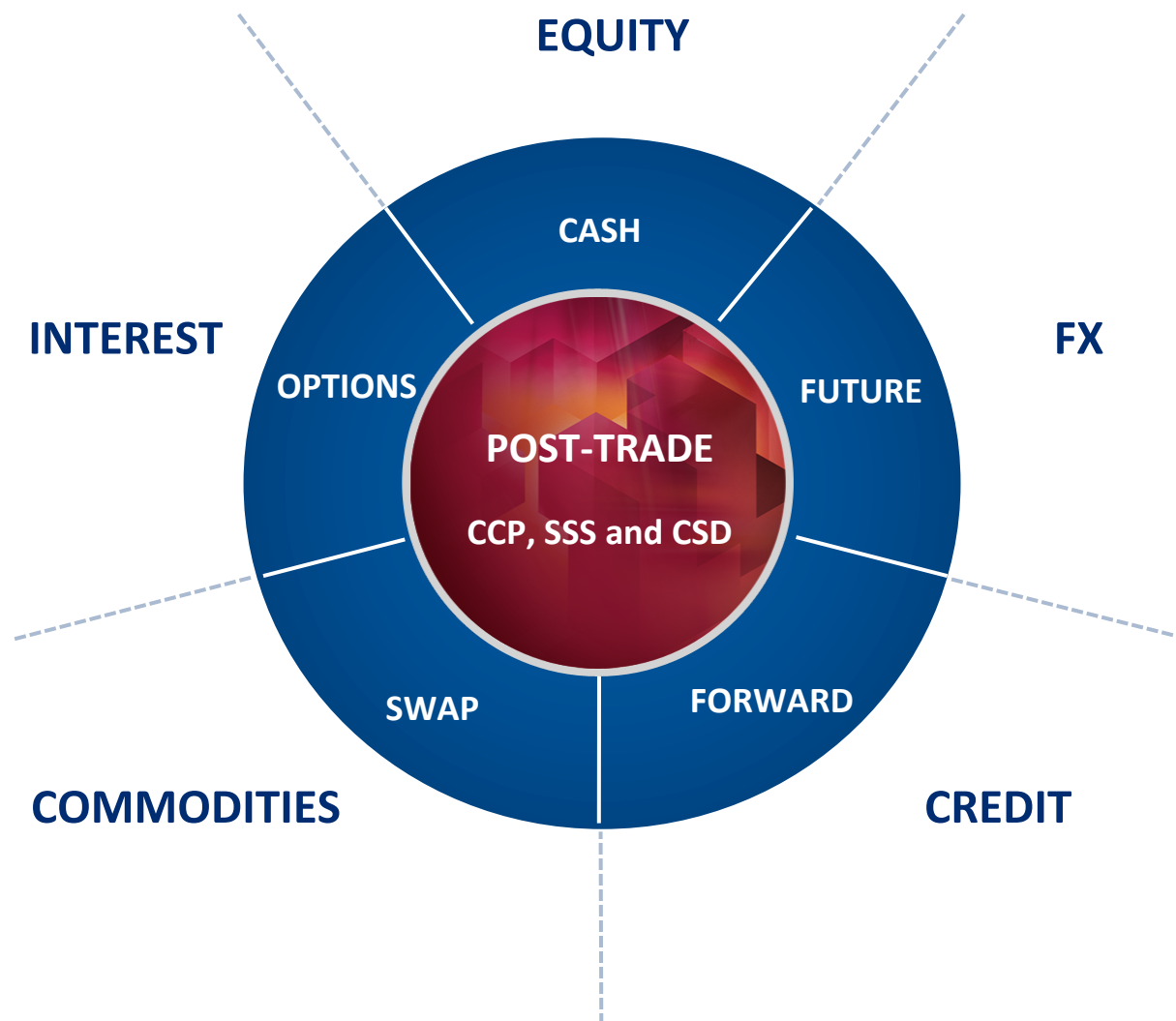
- Intermediaries – local and international brokers (linked to bank and independent)
- Listed companies
- Investors – institutional, foreign and individual (retail)

Exchange market characteristics in Brazil

- BVMF is the sole exchange, despite the market being open for competitor since 2007
- Stocks exclusively traded through an exchange (Dark pools, MTFs and internalization prohibit)
- Identification of the final beneficial owner in the entire trading and post-trading chain
- Derivatives are predominantly listed and OTC derivatives must be registered mandatorily
- Securities lending mandatorily through a central counter-party (CCP)
- The exchange is responsible for oversight and self-regulation of the markets in which it operates

Multi-asset and vertically integrated model

Value gained across most of the chain

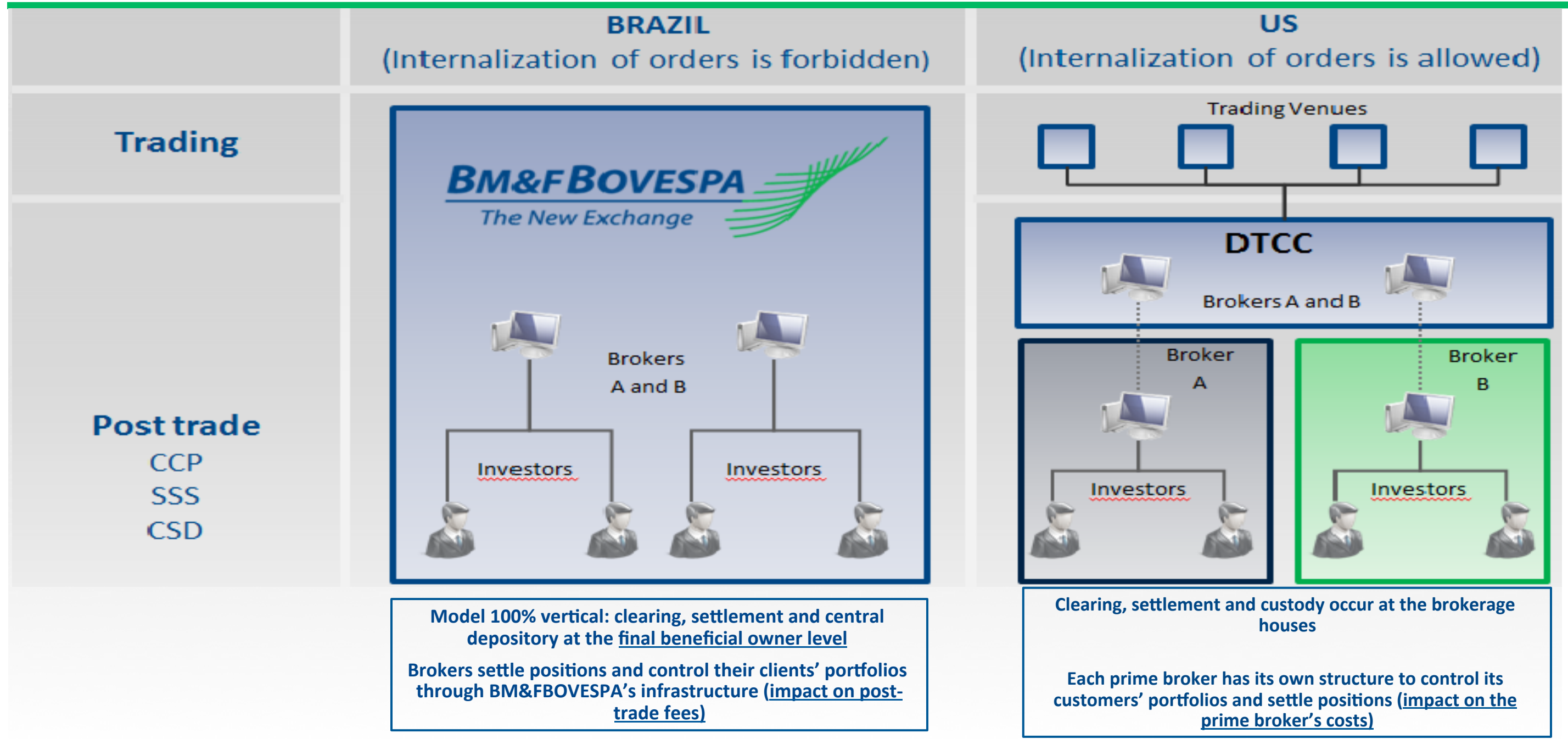


Services for the whole chain

- **Trading Platform:** equities, derivatives, government and corporate bonds, funds, spot FX, among others
- **Post-trading Platform:**
 - Central counterparty (CCP)
 - Settlement System (SSS)
 - Central Depository (CSD)
 - Trade Repository (TD)
- **Services for Issuers and Participants:**
 - Listing
 - Trading access (brokers)
 - Securities lending
 - Custody for clubs and foreign investors (4373)
 - Market Data (vendors)
 - Indices Licensing
 - Software Licensing
 - OTC (derivatives and fixed income)

Multi-asset and vertically integrated model

Vertical Model as a Differential



Overview of Brazilian Capital Market

Developments

BM&FBOVESPA IT, Risk and Operating Development

Building a state-of-the-art platform to boost market growth

BM&FBOVESPA is **investing more than R\$ 1.7 billion** (2010 - 2016) to build state-of-the-art IT, Risk and Operating infrastructure

*CME GROUP and BM&FBOVESPA
PUMA Trading System™*

High performance: high availability, sub-milliseconds latency, low standard deviation
Operational leverage: easily scalable capacity



*Integration of BM&FBOVESPA's
Clearinghouses and New Closeout Risk
Evaluation System (CORE)*

Capital efficiency for clients: integrated risk calculation (equities and derivatives - OTC and listed); and unification of settlement windows
Rationalization and standardization of rules, procedures and requirements

Capital efficiency for clients

Attract and retain clients and strengthen relationship with intermediaries

Development of markets and products

Operational leverage for BM&FBOVESPA

Innovate and enhance market robustness ahead of regulatory demands



Capital efficiency for clients: integrated risk calculation (OTC and Exchange Traded Derivatives)
Customer relationship: strengthening relationships and adding revenue with little marginal expenses

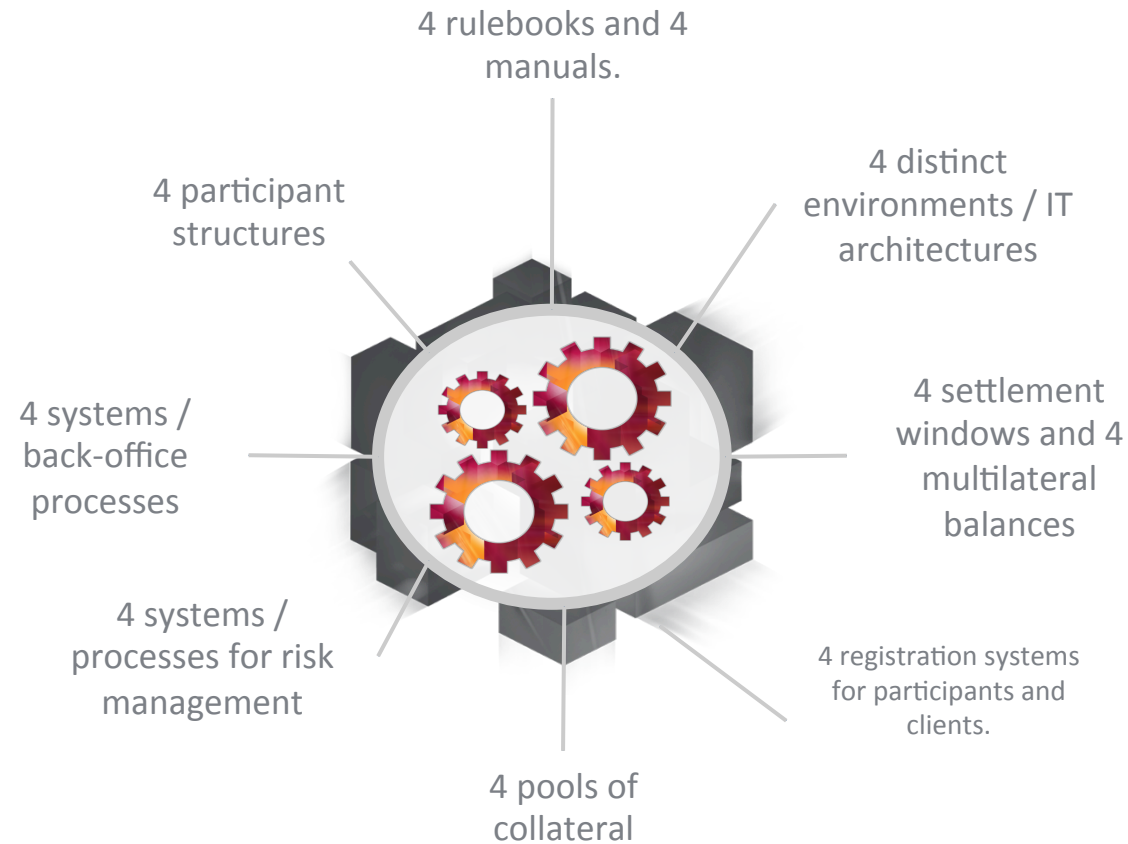


Long-term IT sustainability: significant capacity to expand co-location and own systems
Customer relationship: able to host participants and clients' infrastructure

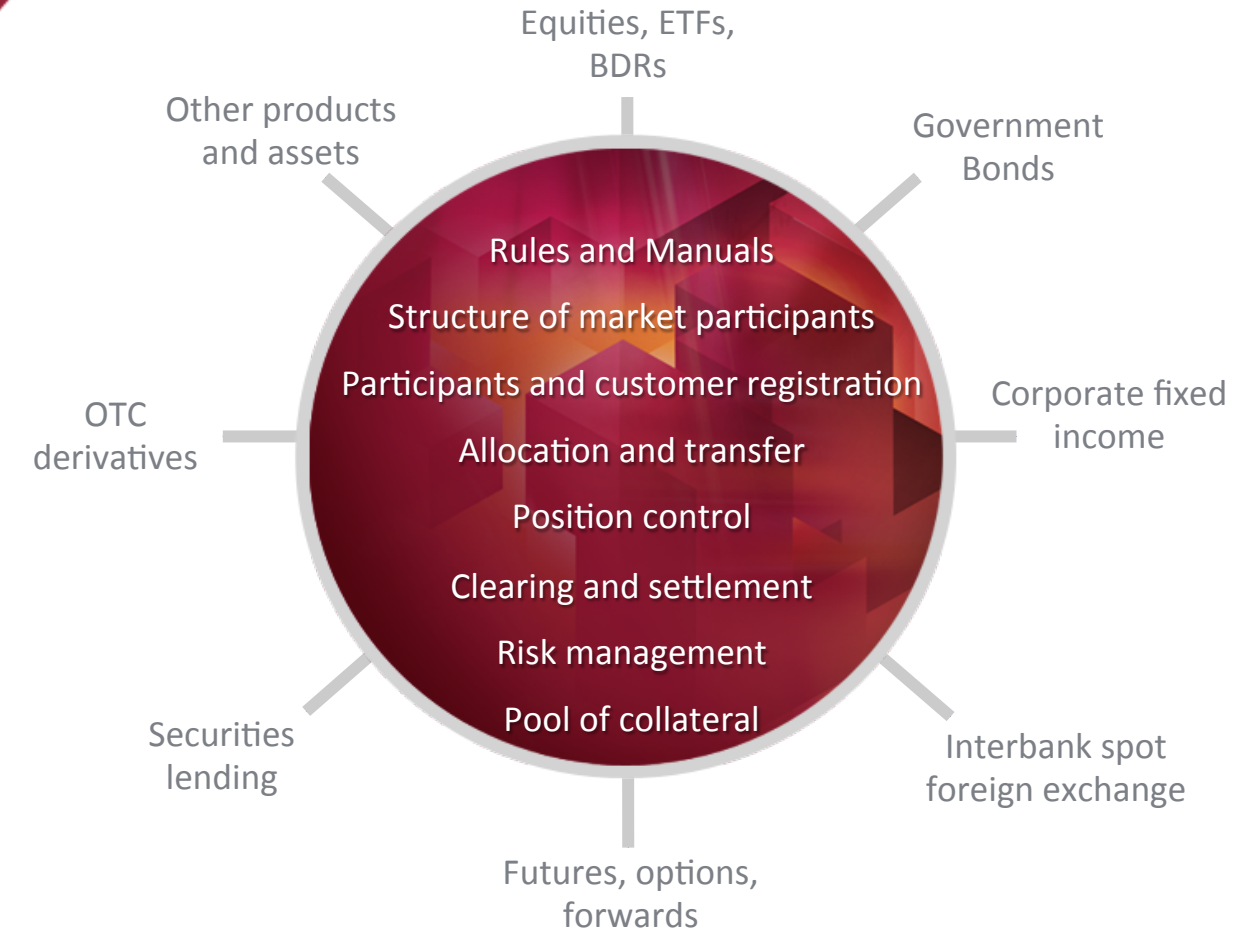
Clearinghouses' Integration and New Risk Model (CORE)

Post-trade environment evolution

Organization of the post-trade environment by types of assets/products



Organization of the post-trade environment by process



Exchange and market participation cost reduction

Liquidity management improvement

More efficient allocation of capital by investors

Operational and technological risk reduction

Clearinghouses' Integration and New Risk Model (CORE)

Post-trade environment evolution

What we have been doing

Aug'14: derivatives phase of the new BM&FBOVESPA Clearinghouse and of the new risk model CORE

Nov'15: IT and processes developments and internal tests execution finalized for the equities phase

Mar'16: Internal Tests conclusion

Jun'16: Tests with market participants (certification)

Mai'17: Parallel Production Cycles conclusion (16 cycles)

Jun'17: Go Live (subject to regulators approvals)

Challenges

Program Management

- ~600 employees involved
- 20 projects
- 89 systems
- 123 market participants involved
- 16 parallel production cycles

IT Integration and processes

- Integration with the CSD
- Settlement of securities (restrictions, failures, integration with securities lending system)
- Covered options and forward transactions
- Corporate actions treatment
- Settlement window unification

CORE - complexity and sophistication

- Calculate and process +1.3bn instrument prices
- We have built a dedicated simulation environment, meeting demands from market participants

What is next

Regulatory approval with Central Bank and Securities Commission

Go/no go process with market participants

Expected **go live** in June

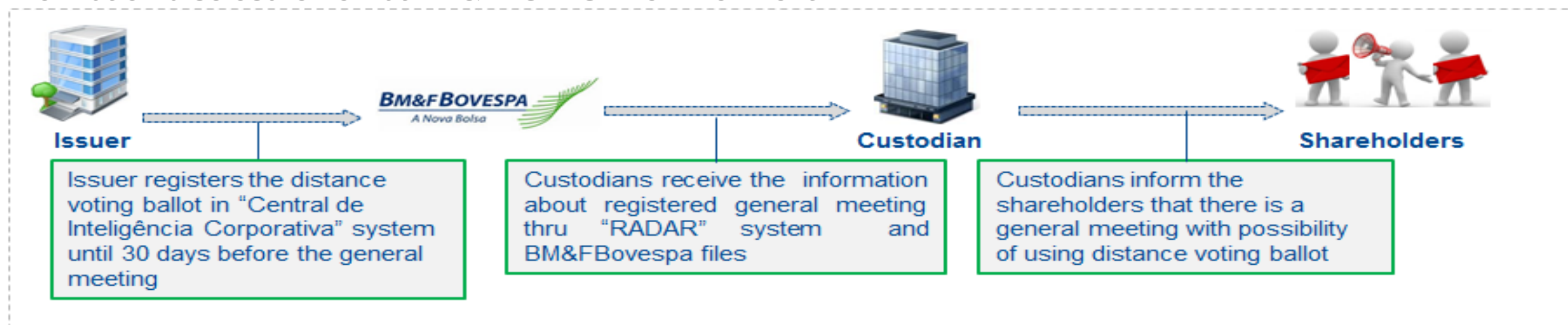
Efficiency: expected new collateral release of R\$20 billion (R\$40 billion phase 1 + 2)

Remote Voting

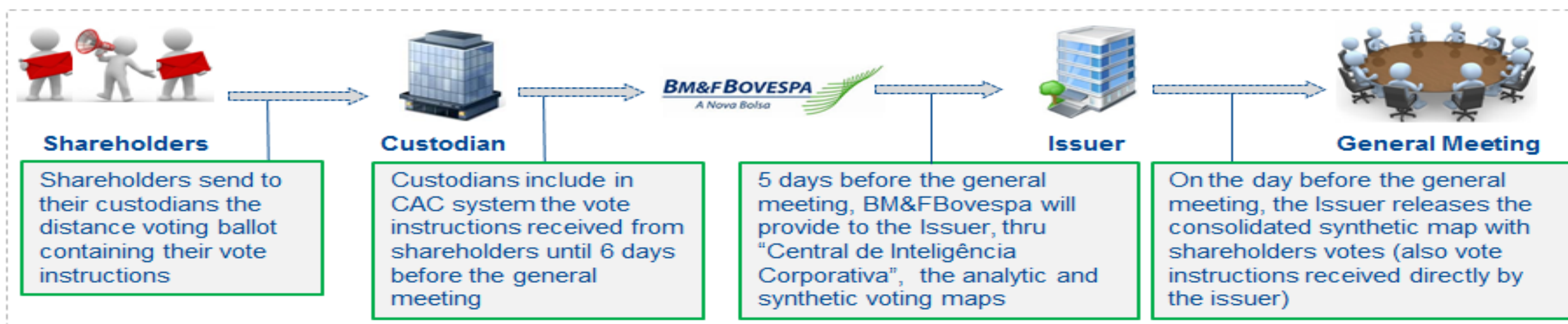
Building a new infrastructure to help shareholders

Voting Process

Information disclosure flow at BM&FBOVESPA environment



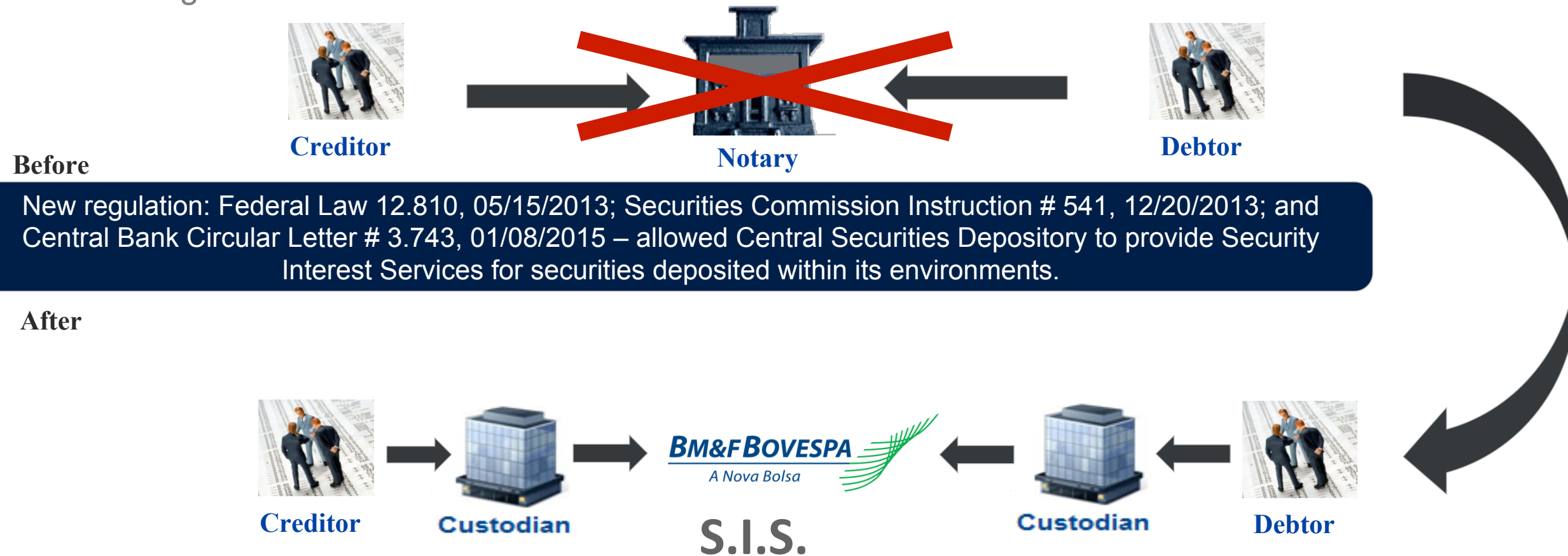
Vote transmission flow at BM&FBOVESPA environment



Security Interests Service

Efficiency, safety and transparency

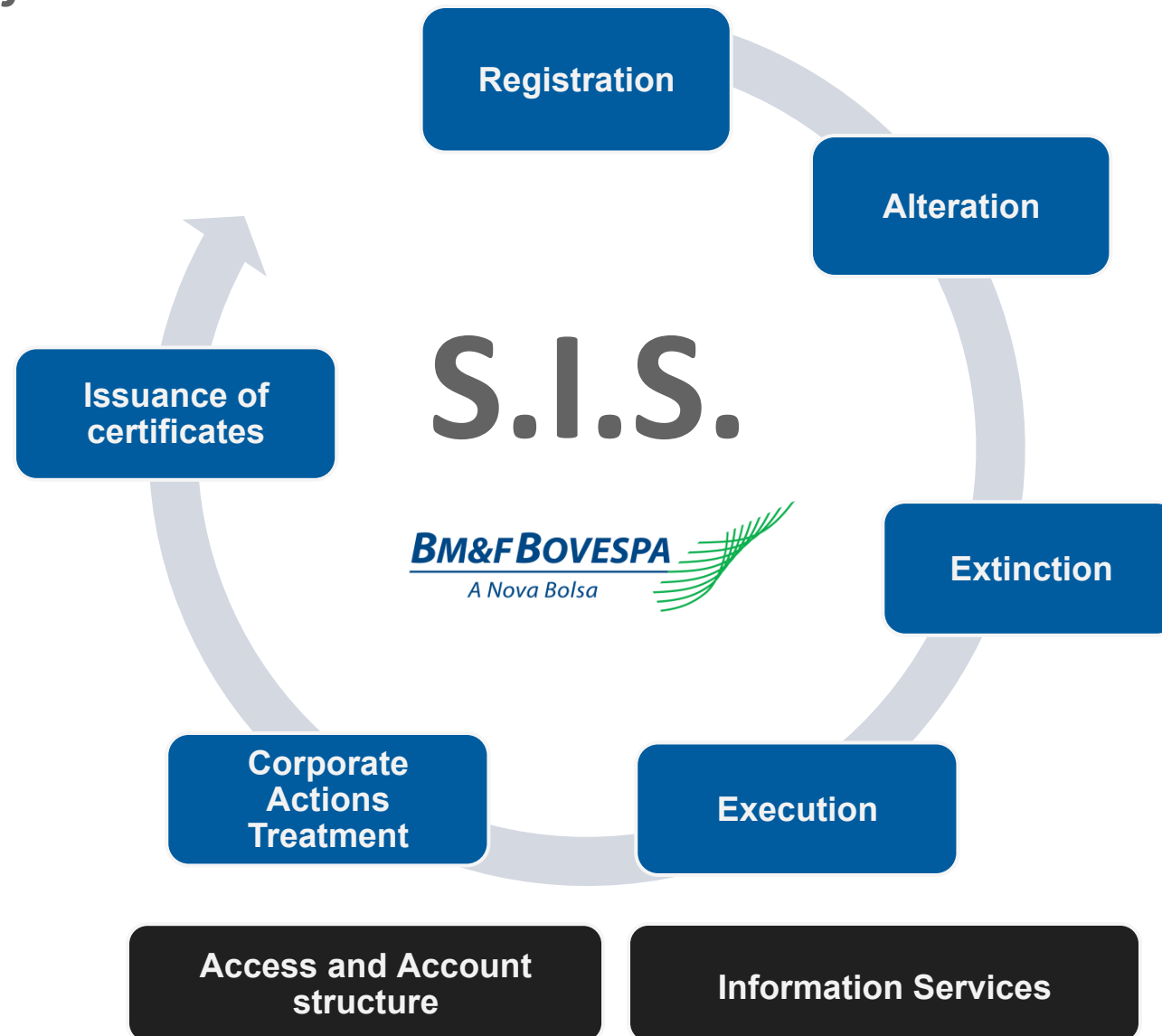
- ✓ Enable registration of instruments for the creation, change, correction and extinction of liens and encumbrances on securities held in the BM&FBOVESPA Central Securities Depository and used for the constitution of liens and encumbrances, including as collateral involving transactions performed outside of the environments operated by the Exchange.



Security Interests Service

Efficiency, safety and transparency

Main features



- ✓ The Security Interests Service allows the registration of the following type of liens:
- ✓ Chattel Mortgage
 - ✓ Pledge
 - ✓ Usufruct

Issuance and Cancellation of Certificates

Electronic primary market platform

- ✓ CSD platform that allows the issuance and cancellation of ETFs, BDR's and UNIT's
- ✓ The automated process brings security and efficiency by eliminating the need of exchange of physical documents, signatures, e-mails and manual data insertion and conference.
- ✓ All activities, and approvals, in the flow are available for custodians, administrators and underwriters through graphical user interface of the depository system.
- ✓ Flexible parameters allowed for each ETF / BDR /UNIT programs, providing greater exclusivity in the structuring of the Certificates.

INOVA (Innovation Program)

Driving innovation in the financial market

What is INOVA?

Innovation initiative with the mission of developing business lines and accelerating new services, products and technologies through:

- **Organic Innovation:** collect and accelerate ideas from employees who have the potential to generate growth opportunities for the company
- **Corporate venture:** strategic investments in startups that develop technological solutions or business models adjacent or complementary to those of the Exchange, adding value to BM&FBOVESPA and the invested startup

How are we doing?

Multi-disciplinary innovation team: "catalyst" for ideas and execution of investments

IT laboratory: team of technicians responsible for the execution of prototypes and "minimally viable products" (MVP)

Areas of Interest



Integration of Capital Markets in the LatAm Region

Foster financial integration in the region

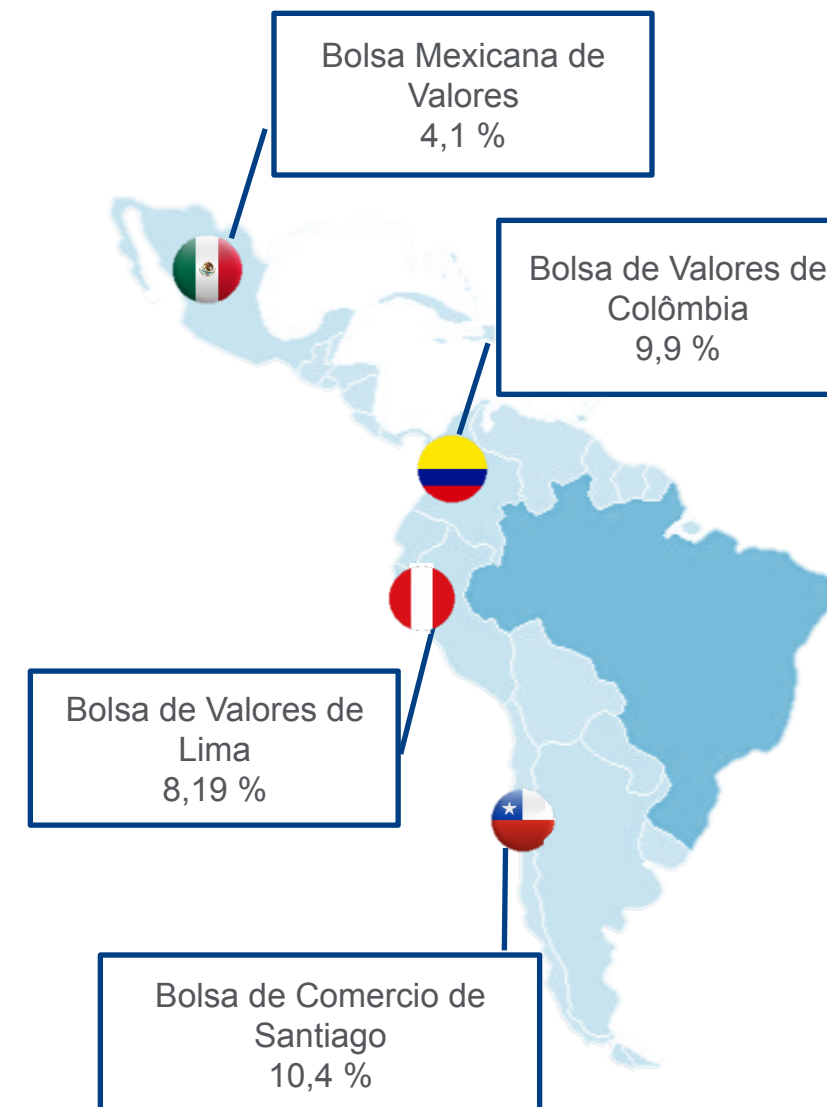
Within the LatAm project BM&FBOVESPA aim to execute acquisitions of stakes in the main exchanges in the region and to create a business agenda for the development of local markets and foster financial integration in the region

- Promote the region as an integrated market, operating under similar standards, attracting foreign investments and fostering investments opportunities for local investors;
- Focus at bringing together regulators, exchanges and market participants in the financial and capital markets;
- Strong and unified advocacy in terms of regulatory challenges and support to market development.

Objectives:

- The integration will allow:
 - Issuers to have more access to international investors;
 - Investors will have streamlined access to other markets in the region and to more sophisticated products;
 - Exchanges to share experiences and *know-how* in terms of trading, post-trading, products, risk management, etc.
- More opportunities for participants with regional presence and for multilatin companies in expansion
- Reduction of investment barriers across the region, with the creation of products, dual listing, interconnection, etc.

Participation of BVMF in LatAm Exchanges



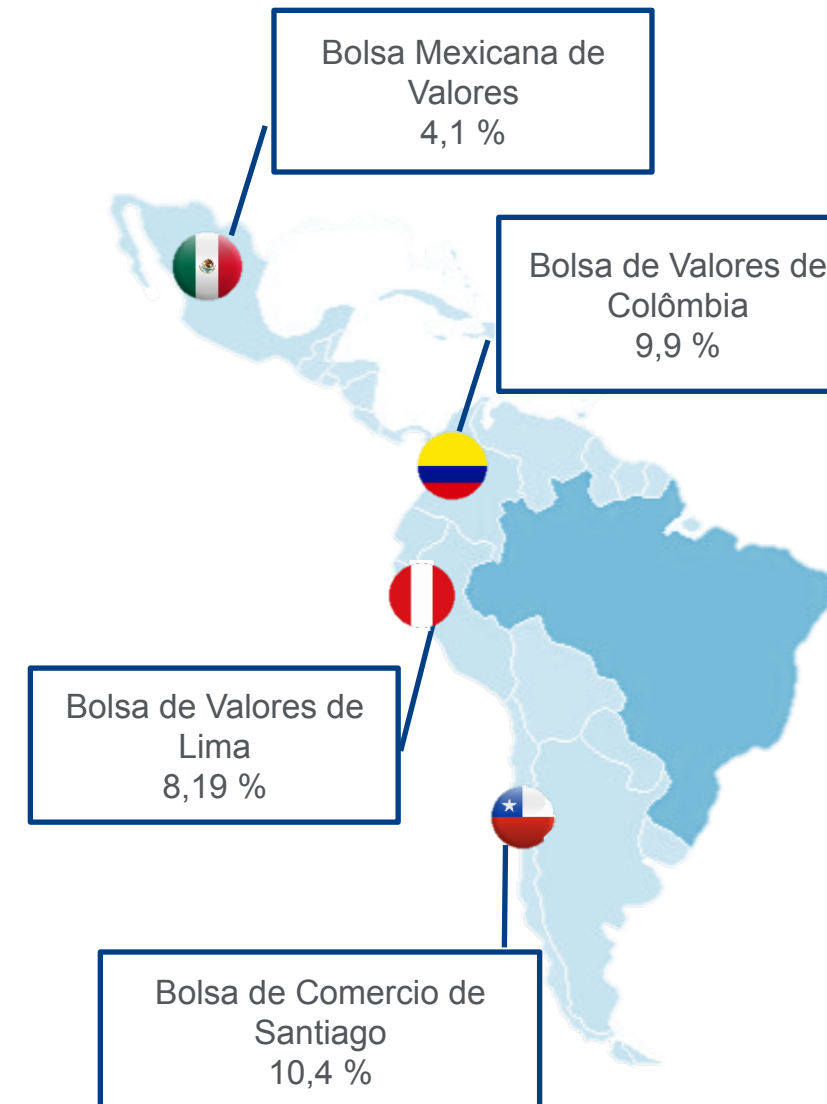
Integration of Capital Markets in the LatAm Region

Necessary Measures for More Integration

Measures that can increase traded volumes and make the region more attractive to investors:

- Harmonization of regulatory regimes
- Standardization of accounting and taxation rules
- Creation of common operating standards
- Uniformization of listing criteria
- Uniformization of trading and post-trading rules and practices
- Creation of high standards of corporate governance and informational regimes
- Creation of a unified system to classify funds and make information disseminated in the industry uniform.

Participation of BVMF in LatAm Exchanges





linkedin.com/company/bm&fbovespa



twitter.com/bmfbovespa



facebook.com/bolsapravoce

Visit the BM&FBOVESPA website

www.bmfbovespa.com

Contact

Emilio Meante
Associate Director - Central Securities Depository
(+55 11) 2565-4267

emeante@bvmf.com.br

BM&FBOVESPA – www.bmfbovespa.com.br

