



**ACTIVITIES  
REPORT  
2019**

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## SELF-REGULATION OF B3'S MARKETS

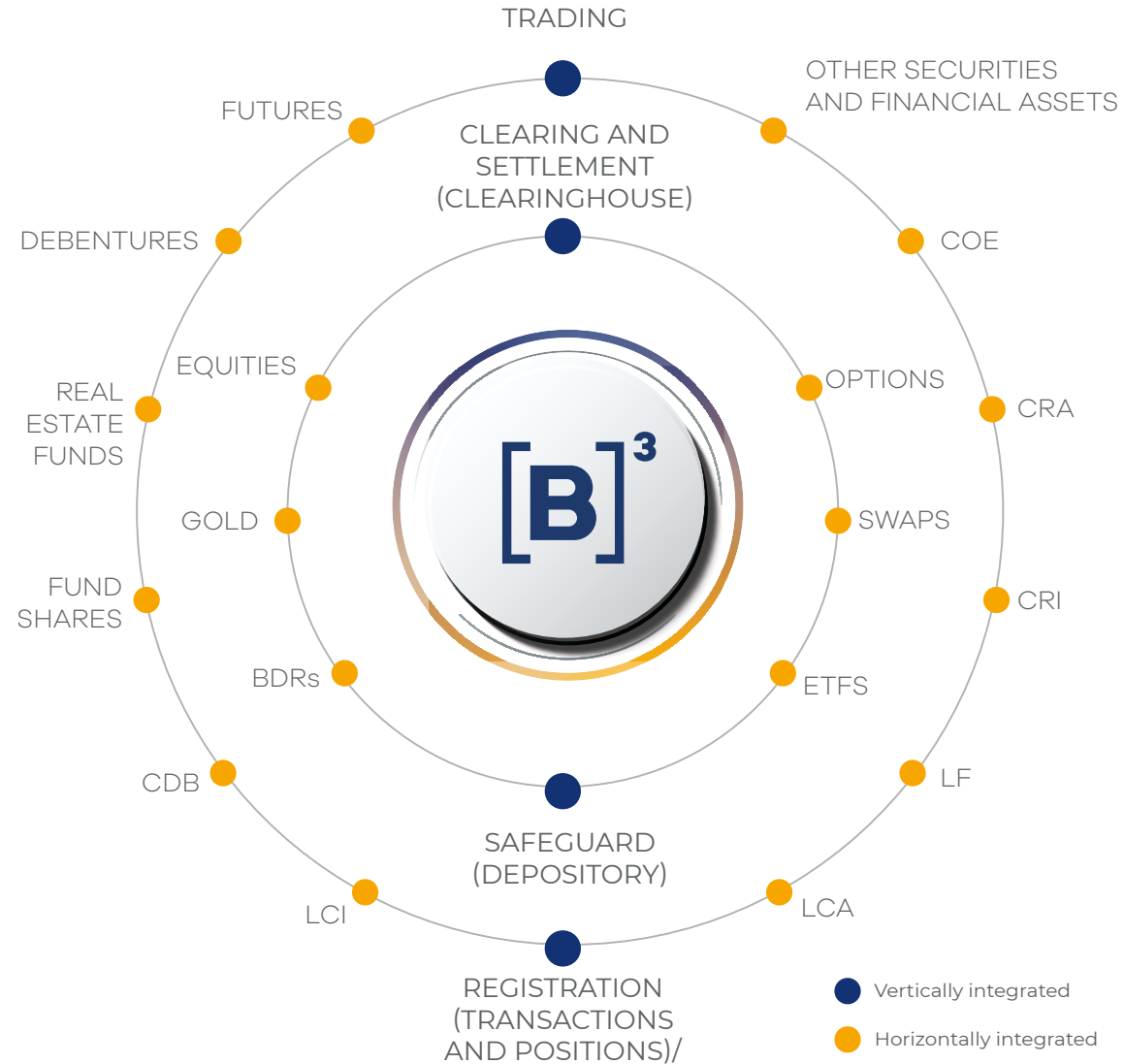
B3 S.A. – Brasil, Bolsa, Balcão provides full infrastructure for the financial and capital market, with a multi-asset trading model. A wide range of securities and financial assets are traded, registered, settled and deposited in its environment, with vertical and horizontal integration. These operations are performed by banks, brokerage houses and dealers, which are known as B3 participants.

This ecosystem has rules to create a fair and equitable environment for different agents, allowing the market to perform its core functions, to enable (i) investment alternatives for savers (individuals, pension funds and others), (ii) financing sources for companies, governments and other institutions, (iii) hedging for individuals or bodies that need to protect themselves against price fluctuations in a product or currency.

BSM is the body responsible for surveillance of the markets operated by B3, seeking to maintain their integrity.

**We believe that to promote market integrity is to promote the development of Brazil.**

**Figure 1 - B3: full infrastructure for the financial and capital market**



# OUR MANDATES AND PILLARS

- Supervision of B3 market activities (orders, registrations and transactions)
- Inspection of B3's participants
- Inspection of B3's activity both as an issuer of exchange-traded assets and as a market operator
- Measures to maintain the integrity of the market, with guidance activities and with disciplinary administrative proceedings that can penalize parties involved in irregularities
- Operation of the Investor Compensation Mechanism (MRP)

We perform our mandates on a three-pillar basis:



**KNOWLEDGE AND GUIDANCE**



**MARKET INTEGRITY**



**INVESTOR PROTECTION**



1



**Knowledge and guidance:** we guide the market, share knowledge and assist B3's participants in adopting best practices for their controls and processes, in accordance with the market's rules.

2



**Market integrity:** we monitor all of the transactions that occur in B3's markets, audit its participants and, when necessary, act to prevent the repetition of irregularities.

3



**Investor protection:** while we transparently uphold market integrity, our Investor Compensation Mechanism (MRP) service channel reimburses investors and managers for harmful actions or omissions on the part of B3 participants.

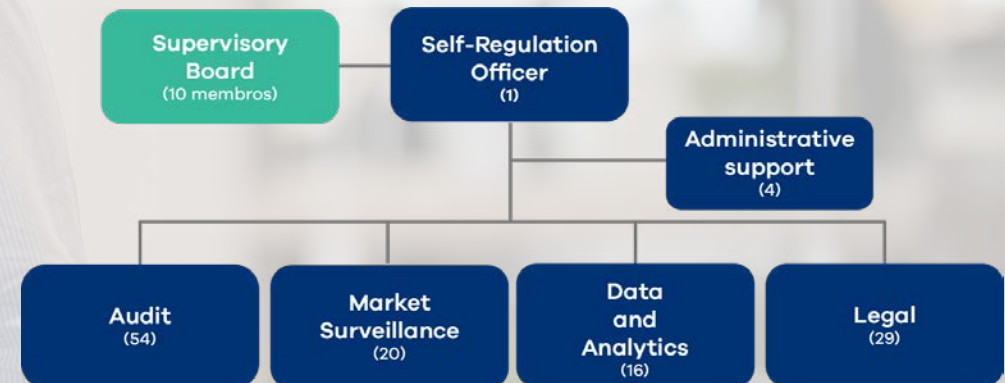




## ORGANIZATIONAL STRUCTURE

We have budgetary independence and a dedicated team, and to meet our objectives we are organized as in Figure 2.

**Figure 2**  
**BSM's Organogram**



In the following pages we describe the main activities developed over 2019, based on our three pillars of activity.



## SUPERVISORY BOARD

CVM Instruction 461 governs regulated securities markets and specifically addresses organized OTC and exchange markets. It determines that B3 must have a self-regulation department and that this must have a self-regulation committee. The central purpose of BSM's Supervisory Board is to judge administrative proceedings and complaints to the Investor Compensation Mechanism (MRP) within the scope of an appeal.



The Supervisory Board is responsible for:

- approving rules of procedure to initiate and develop proceedings and to enter into settlement agreements
- overseeing compliance with the market's working rules and, when necessary, determining that the Self-Regulation Officer penalize participants for rule breaches
- approving reports on BSM's activities sent to the regulator, as well as information about any measures, recommendations and provisos proposed from observed facts
- approving BSM's annual working program and budget proposal and overseeing their respective executions
- judging appeals against decisions handed down by the Self-Regulation Officer
- inspecting and supervising B3's compliance with obligations for securities issuers

According to CVM Instruction 461, the Supervisory Board must be comprised of at least two thirds independent members, one of whom being the Self-Regulation Officer.

In December 2019, the Supervisory Board was comprised of 11 members, including the Self-Regulation Officer, nominated by B3's Board of Directors, as below.

Aline de Menezes Santos	Marcos José Rodrigues Torres* (Self-Regulation Officer)
Carlos Cezar Menezes*	Marcus de Freitas Henriques*
Henrique de Rezende Vergara*	Murilo Robotton Filho*
João Vicente Soutello Camarota	Rodrigo de Almeida Veiga*
José Flávio Ferreira Ramos	Sergio Odilon dos Anjos*
Luis Gustavo da Matta Machado*	

\* *Independent members*

In 2019, 19 Supervisory Board meetings were held to discuss and deliberate on BSM-related matters, to rule on administrative proceedings brought as a result of participants and their proxies, and to analyze proposals for settlement agreements presented in the scope of ongoing investigations or proceedings. Furthermore, the Supervisory Board judged, via electronic ballot, appeals presented to the MRP.

Table 1 sets out the number of judgments and of analyses performed of settlement agreements.

### Table 1 – Hearings and analyses of settlement agreements performed in 2019

Activity	No.
MRP Judgments and Appeals	386
Administrative Proceedings Judgments	13
Analysis of Settlement Agreements	28

In addition to judging and supervising BSM's activities, the Supervisory Board strategically conducts BSM's line of activity and proposes guidance for the team on relevant matters that intersect with self-regulation as a whole.

In addition to the Supervisory Board meetings, in 2019, board members took part in two meetings with the CVM Executive Board. They also took part in five meetings of the BSM Market Advisory Committee, as well as several meetings with B3's senior management.

The Supervisory Board meetings and forums analyzed and discussed subjects such as:

- the surveillance rule for transactions via Retail Liquidity Provider (RLP)
- BSM's position on new CVM Instruction 461, particularly regarding the Sole Self-Regulator and MRP
- criteria for surveillance of self-trading in auctions
- enhancements to BSM's Procedural Rules
- enhancements to BSM's existing alerts and sharing of new PML alerts with market participants
- guidance for the market regarding Risk-Based Approach (RBA) and Nonresident Investor Registration
- technical note on internal desk trading
- sweep and cross order
- parameters for implementing enforcement measures in cases of lack of orders identified in an operational audit

Among the significant subjects discussed in 2019 were: OTC market surveillance; a pricing model for self-regulation services to be offered to new entrants to the organized OTC market and for market infrastructure; project guidelines to review the MRP's actuarial model, executed with the support of FGV; and improvements to the MRP Rulebook, with the extinction of the voluntary appeal to the Plenary of the Supervisory Board in cases of a participant's out-of-court liquidation.

## OTC MARKET SUPERVISION

The Supervisory Board monitored the progress of OTC market surveillance activities, which have been the responsibility of BSM since the business combination of BM&FBOVESPA and Cetip. Since 2019, BSM has had autonomy in relation to data bases and the development and application of proprietary indicators for OTC market supervision, which has resulted in more confident analyses. As a central aspect of the 2019 audit plan, the Supervisory Board monitored the result of the audit work on BSM's business of custodian requalification for physical safeguard of assets. In meetings, the Supervisory Board and BSM technical area discussed B3's OTC market rules and their effectiveness, as well as methods of overseeing this market's observations.

## IMPROVEMENTS TO BSM'S PROCEDURAL RULES

The Supervisory Board held in-depth discussions with the technical area and the market about improvements to BSM's Procedural Rules, based on comments received in meetings with the BSM Market Advisory Committee and with B3 representatives. These discussions resulted in a proposal to change BSM's Procedural Rules, which already has the approval of participants in the scope of the BSM Market Advisory Committee and will be submitted for final approval by CVM, as stipulated in CVM Instruction 46.

## IMPLEMENTATION OF THE PUNITIVE MEASURE CRITERION FOR ABSENCE OF ORDERS

In February 2019, BSM established the maximum percentage of absence of orders for non-adoption of punitive measures in operational audits of B3's participants in the Listed Segment. The new percentages were established in line with a recommendation from CVM, following in-depth debate at the Board regarding implementation.

## RBA AND NONRESIDENT INVESTOR REGISTRATION SIMPLIFIED REGISTRATION GUIDANCE NOTE

In 2019, BSM set itself the task of drafting a guidance note for the market, seeking to introduce minimum elements to consider when supervising the participants in the markets operated by B3 in regard to the Risk-Based Approach (RBA) adopted via CVM Instruction 617, published in December 2019.

The guidance note will describe a set of procedures and recommendations that exemplify, as BSM understands it, ways to comply with the rule and will set out the diligence expected in regard to simplified registration of the nonresident investor. This includes cases of incomplete information, such as inability to identify a transaction's end beneficiary. Throughout the development of this guidance work, the Supervisory Board and the technical working group of market members and CVM took part in discussions about the draft's main points.



A man with short dark hair and glasses is sitting on a bright yellow armchair. He is wearing a dark brown V-neck sweater over a light-colored collared shirt. He is looking towards the camera with a slight smile. The background is a blurred office or lounge area with large windows and indoor plants.

## KNOWLEDGE AND GUIDANCE

Market guidance activities are an important pillar of our operation. Our experience shows that these activities contribute very positively to maintaining market integrity and to protecting investors. For this reason, we have invested ever more time in holding training sessions, workshops and other forms of educational interactions with B3's participants. Below we list some examples of these guidance activities.



## WORKSHOP ON SHARING SELF-TRADING IN AUCTION ALERTS AND ON AN ENVIRONMENT FOR SHARING FILES BETWEEN BSM AND PARTICIPANTS

Nearly 250 people, representing 55 different institutions, followed the event (in person or via streaming), which covered sharing self-trading in auction alerts. Our Market Surveillance Associate Director highlighted the importance of auctions for appropriate price formation of assets in B3's markets. For this reason, there is particular concern with assuring that orders participating in theoretical price formation of an asset during auctions are preserved.

At the workshop, the BSM team presented a new environment for sharing files with the market. One Managed File Transfer (MFT) tool came to be used in the scope of operational audits as of August and, after December, in the other activities that entail the exchange of documents and files between BSM and the participants. The new tool brings greater agility in the exchange of information, and reduced costs for BSM and the market, as well as contributing to sustainability of the planet.

## Events, workshops and training

In March 2019, we held the workshop on Sharing Self-Trading in Auction Alerts and Environment for the exchange of files between BSM and participants.

Still in March, we took part in the 1<sup>st</sup> Forum on Economic-Financial Crime, held by the National Association of Federal Crime Experts. A representative from our Market Surveillance Department took part in the panel discussion "Financial Frauds in the Capital Market", together with attorney-in-fact Karen Kahn; and another BSM representative, from the Legal & Enforcement Department, took part in the "Plea Bargain Collaboration in Financial Crimes" panel discussion.

In the same period, we took part in the workshop on Churning in the Capital Market, held by Ancord.

On November 29, 2018, CVM published Circular Letter CVM/SMI/SIN 03/2018 containing guidance for Brazilian intermediaries that adopt simplified registration for nonresident investors. We have been working with CVM to guide the market about expected diligence in obtaining information necessary for monitoring nonresident investors' transactions, as pertains to prevention of money laundering. On April 29 we took part in an Ancord event on this subject.

At the start of May, we held a workshop on Simplified Nonresident Investor Registration. The initiative was part of efforts by BSM and CVM to guide the market on the diligence expected from Brazilian intermediaries in obtaining information necessary for monitoring nonresident investors' transactions.

The guidance on Nonresident Investor Registration also sets out minimum aspects BSM expects in the Risk-Based Approach regarding simplified nonresident investor registration. The Guidance was drafted and validated with the market and CVM, principally within the scope of the BSM Market Advisory Committee.

Between May 14 and 16, we were represented by a manager from the Legal & Enforcement Department at "The experience of CVM and BSM in the prevention, investigation and repression of illegalities committed in the financial market" training, organized by the Higher School of the Federal Public Prosecution Service in Rio de Janeiro. Federal Public Prosecutors were presented with our market guidance, surveillance and inspection activities, along with enforcement cases related to the Federal Public Prosecution Service's activity, including examples of practical cases handled by BSM.

On May 31, our Market Surveillance Associate

Director took part in the panel discussion Febraban Program for the Prevention of Money Laundering, Corruption and Terrorist Financing, and gave a speech on this subject as pertaining to the financial market, in particular concrete cases identified by BSM and our experience with sharing alerts with the market.

We sent two representatives to take part between May 13 to 17 in the Annual Meeting of the International Organization of Securities Commissions (IOSCO) held in Sydney, Australia. The panel discussions covered subjects such as (i) the challenges of regulation of Fintechs; (ii) the balance between promoting financial products and protecting investors; (iii) the availability of financing for investments taking into account environmental, social and governance aspects (sustainable finance); (iv) prospects for the future of financial services; (v) innovations in regulatory tools.

Over June 4 to 5, we took part in the 1<sup>st</sup> Congress of PML/TF Professionals, held by the Institute of Anti-Money Laundering and Anti-Terrorist Financing Professionals (IPML).

Finally, our Business Audit and Market Surveillance Associate Directors took part in the workshop The Importance of use of Prevention Technology, in the Surveillance and Investigation of Cases of Money Laundering – Perspectives from the Public and Private Sectors. This covered the criteria BSM expects for surveillance of financial transactions in accordance with CVM Instruction 301/99, of the diligence expected in the analysis of PML alerts that BSM shares with participants, and of the situations identified by BSM during audits of B3's participants.

## Communications

In February, together with B3, we published External Communication 002/2019, to announce the maximum percentages of absent orders for non-adoption of a punitive measure as per the Operational Audit Work plans of 2019 and 2020.

In March, we announced the result of the operational audits of the previous year's Working Program. Since 2013, we have adopted a methodology to classify the results of our operational audits, seeking to establish a quantifiable and uniform mechanism to assess all of B3's participants, in such way that each can monitor its individual performance over the years and compare its individual performance with the market. The operational audits classification occurs at the end of each annual work plan.

## BSM's International Training for Regulators

On October 24 and 25, we held the 9<sup>th</sup> edition of Market Surveillance and Enforcement Training. At the event, we discussed the impact of technological innovations on the market, responsibilities for failures in electronic trading platforms and in surveillance of OTC markets, and aspects relative to enforcement such as deciding the scale of penalties.

## RETAIL LIQUIDITY PROVIDER (RLP)

In August, B3 implemented a new type of order, named Retail Liquidity Provider (RLP), seeking to provide liquidity for retail clients in WIN and WDO (respectively Ibovespa index mini futures and US Dollar mini futures) assets. The RLP was approved by the CVM in a 12-month experimental phase. Participants who wish to offer their clients the new type of order must adapt to certain controls that will be monitored by B3 and BSM.

In line with BSM's strategy of being close to participants and helping them to understand the prevailing regulations, a multi-disciplinary team from the market surveillance, audit and analytics areas held meetings with seven participants to set out the controls required for implementation of the product.

On November 26, we published External Communication BSM 004/2019 regarding the surveillance of transactions carried out via Retail Liquidity Provider (RLP). It contained guidance for intermediaries about required items for surveillance of the product, such as information to be updated in participants' operational rules and parameters and website; investor adhesion opt-in and opt-out functionality; criteria for the disclosure of the product with profile compatibility; surveillance with evidence of abusive practices; and log submission for calculating artificially held back orders in participants' routing systems.

## Advisory Committee

Created as a dialog channel between BSM and participants who trade in markets operated by B3, the Advisory Committee aims (i) to carry out studies, analyses and discussions about matters related to self-regulation of the exchange-traded and organized OTC markets; (ii) to consolidate interpretations of rules applicable to the securities market, in regard to which BSM inspects compliance; (iii) to submit suggestions about BSM's activities.

In 2019, we held two meetings at the Advisory Committee, at which the following issues were discussed.

- OTC desk trading
- More BSM alerts for the brokerage house's institutional clients
- Simplified nonresident investor registration
- BSM market guidance publications
- Surveillance of self-trading in auctions

## Guidance from our team

We are available to B3's participants on a daily basis and seek to guide them on internal controls best practice and regarding queries about products and our understanding of the prevailing rules and regulations.

We also receive complaints, queries and doubts from investors about market transactions and the activity of participants and their proxies. We believe that this interaction with all sides of the process is positive for the development of the market as a whole.

Our guidance activities reached at least 2,442 people in 2019. There were 65 meetings held and 239 emails answered, generally to respond to doubts about market rules and processes. In Table 2, we set out the number of guidance actions performed per channel and the number of people receiving guidance.

**Table 2 – Guidance per channel performed in 2019**

Channel	Number of events	People guided
Phone calls	942	1,116
Workshops	4	500
Training	12	356
Emails	239	255
Guidance meetings	65	208
B3 Public Service B3	3	7
<b>Total</b>	<b>1,265</b>	<b>2,442</b>

In Table 3, we set out the number of interactions per subject matter.

**Table 3 – Guidance per subject matter in 2019**

Subject	Number of events	People guided
MRP	459	468
General abusive practices	49	382
Self-trading	76	359
PML	41	355
Managed File Transfer (MFT)	224	226
Operational procedures	97	165
Layering / Spoofing	15	39
Rule interpretation	22	22
PAD	14	14
Complaint	10	13
Plan of Action analysis	8	11
Shared alert (analysis)	5	9
Internal alert	5	8
Indirect audit	2	2
Investigation process	2	2
Other	236	367
<b>Total</b>	<b>1,265</b>	<b>2,442</b>

## COMPLAINTS CHANNEL

We have a complaints channel for investors, professionals, or others to make complaints about activity of market professionals, companies listed at B3 and financial intermediaries.





The importance of the complaints channel is that it constitutes a valuable source of information for BSM's inspection activities.

In 2019, we received 101 complaints about the subjects listed in Graph 1.

### Graph 1 – Complaints received in 2019





## INVESTOR COMPENSATION MECHANISM (MRP)

We manage B3's Investor Compensation Mechanism, which aims to secure compensation to investors for losses incurred from the actions or omissions of exchange market participants.

In 2019, we received a lot of complaints to the MRP from the out-of-court liquidation of the Gradual Investimentos and Walpires brokerage houses that occurred in 2018. Close of the end of the second half of 2019, we also received complaints stemming from the out-of-court liquidation of UM Investimentos.

Table 4 sets out the number of complaints received in the scope of MRP, ongoing and concluded, since 2012.

In 2019, we paid out 684 compensations for complaints judged to be fully or partially valid, to the total value of BRL R\$ 13,318,250.22<sup>1</sup>. The value of compensations paid up until to 2012 is BRL 33.3 million, as shown in Table 5.

**Table 4 – Complaints to MRP – 2012 to 2019**

Stage	2012	2013	2014	2015	2016	2017	2018	2019
Instruction	-	-	-	-	-	-	40	457
Being judged	-	-	-	-	-	-	9	24
Notification of the parties	-	-	-	-	-	-	-	-
Appeal period	-	-	-	-	-	-	2	64
BSM conclusion	200	144	185	235	620	162	742	595
<b>Total</b>	<b>200</b>	<b>144</b>	<b>185</b>	<b>235</b>	<b>620</b>	<b>162</b>	<b>793</b>	<b>1,140</b>

**Table 5 – Compensations paid since (BRL million)**

	2012	2013	2014	2015	2016	2017	2018	2019	Last 8 years
Values Compensated (BRL million)	1.355	0.438	1.136	4.906	7.220	2.666	2.244	13.18	33.283

<sup>1</sup> Cases judged partially valid have not been included when complainants have entered an appeal with CVM and with complaints still pending consideration by the autarchy.



## PARTICIPANTS' AUDIT

BSM's Audit team is responsible for directly assessing B3 participants' compliance with financial and equity requirements, as well as their physical and technological infrastructure, their internal controls and the certification of their professionals.





Our 2019 Annual Operational Audit Plan encompassed the auditing of 119 participants. The audits encompass trading processes and information technology, as well as B3's participants in all of its markets.

The main activities performed by the 2019 audit are listed in Table 6.

**Table 6 – Audits held in 2019**

Type of audit	Number
Operational Audits – Exchange	56
Operational Audits – OTC	52
Operational Audits – Qualification	5
Pre-Operational Audits	11
Specific Audits	84
MRP Audits	688
<b>Total</b>	<b>896</b>

## Operational Audits

During Operational Audits we assess how participants' technology infrastructure, processes and controls comply with rules of access to B3's markets and with the other prevailing rules. Our team holds discussions and maps out participants' processes and controls and assesses the existence, adequacy and effectiveness of these points.

For participants in exchange-traded segments, we assess the following aspects: (i) client registration; (ii) suitability; (iii) order receipt, registration

and execution; (iv) trade settlement; (v) custody of assets; (vi) risk management; (vii) investment club management; (viii) margin account; (ix) self-employed investment agents; (x) information technology.

For OTC segment participants, in addition to some of the abovementioned processes, we assess compliance with processes related to the following activities: (i) registration and update of asset information; (ii) intermediation of assets registered at B3; (iii) physical safekeeping of hard-copy assets.

## Indirect Audits

In indirect audits, also known as remote or virtual audits, we assess participants' compliance with prevailing rules and regulations through tests based on data treated by statistical software.

This type of audit complements the operational audit and tends to be more efficient, as it allows analysis of the entire universe of information and not only samples as is normally the case with tests carried out in Operational Audits. It also permits a reduction to the monitoring cost of audit work in the field.

As an example of indirect audits, we monitored individuals linked to a participant who may have performed transactions through another, unlinked, participant.



There is also verification of the financial requirements that B3 makes of participants, in accordance with the access manual, to trade in each access category. Another example is continuous surveillance of investment clubs for possible noncompliance regarding portfolios, number of shareholders and execution of prohibited transactions.

## Pre-Operational Audits

We perform pre-operational audits to assess compliance with B3s access rules by the institutions that wish to become participants in the markets operated by B3. In this audit mode, we check compliance with a range of operational, technology and financial requirements.

## MRP Audits

Based on complaints that investors send to the MRP, the need may arise to produce more detailed information for adequate analysis of the case.

Our Audit team sets aside a large part of its resources for drafting MRP reports, to discover the technical aspects of these complaints or to calculate the real value of investors' losses. In 2019, 686 of these documents were drafted.

## Specific Audits

We also carry out specific audits at CVM and B3's request and following complaints to BSM to check for possible breaches of the rules that govern the working of markets operated by B3.



## THE INSTITUTE OF INTERNAL AUDITORS (IIA) OF BRAZIL

Institute of Internal Auditors (IIA) of Brazil certification was approved in the first half of 2019. The certification guarantees Audit area compliance with international rules for the professional practice of audits, resulting from the team's professionalism and commitment to the quality of the work developed. This is important recognition of our team's performance, of our governance and of our audit processes.



## MARKET SURVEILLANCE

Market surveillance activity detects abnormalities that may relate to irregular transactions such as market manipulation, insider trading, fraudulent trading and the irregular exercise of activities.

All orders and transactions executed in B3's market are treated by the surveillance systems, which issue alerts in the case of irregularities. These alerts are analyzed by Market Surveillance and if there are signs of irregularities further clarification is requested from the participants, or an investigation is opened to discover the facts.

## Analysis of abnormalities

Every day we monitor 100% of orders and transactions executed in B3's markets. In other words, all transactions carried out through the B3 environment pass through BSM's analysis filters.

Market Surveillance searches for possible abnormalities related to irregular execution of activities such as market manipulation; insider trading; creation of artificial conditions of supply, demand or price; money laundering; and the irregular performance of activities. These abnormalities are brought to light by alerts generated by the Planning, Control, Data and Analytics data mining systems. There were 6,688 alerts generated in 2019.

## Market Oversight Reports

After analyzing these alerts, or complaints received, we check for signs of irregularities. If they exist, we draft a Market Oversight Report.

In 2019, we initiated 160 reports and completed 163, with an average time of 240 days of preparation, which encompasses the period between the alert date and the Self-Regulation Officer signing off on the report. The main irregularities subject to investigation in these reports are set out in Table 7.

**Table 7 – Initiated reports for transactions in 2019**

Initiated Market Oversight Reports	Qty.
Price manipulation or artificial conditions of supply, demand, or price	46
Complaints	66
Evidence of money laundering (transfer of resources or other irregularities)	19
Unfair practices	17
Order registration and control faults	6
Registration process faults	6
<b>Total</b>	<b>160</b>

There are several stages to drafting the report and each can occur more than once, as we can request additional information at any time from any of the parties involved. Among these stages, we highlight questioning the participant, deadlines to submit information, time to analyze received information, internal and external meetings, and drafting the report (hard copy).

Some cases proceed directly to CVM when we ascertain that they refer to individuals or institutions that are not B3 participants, employees, or proxies and are therefore outside of BSM's remit.

## BROADENING THE SCOPE OF ALERTS SHARED WITH THE MARKET

BSM always looks out for participants' interests and for knowledge-sharing opportunities. Over 2019 we developed alerts with B3's participants, based on understanding their operating models. This made the alerts more effective, resulting in fewer alerts being generated by participants, and analyzed, and in greater compliance with B3 and CVM's rules and regulations.

This course of action includes the measures described below.

- Widening the scope of the shared PML alert:
  - implementation of the intentionality indicator for the alerts generated as per subparagraphs II and VII, and fewer false positives in the already shared alerts
  - interaction with participants to development of the alerts generated as per subparagraphs I, III and VI (mapping, interview, tests and collection of feedback) to begin the regime of adapting to the model
- Start of sharing an alert for self-trading in auction (which provokes dislocation of demand).

## GUIDANCE ON OTC DESK TRADING

We have issued specific guidelines to inform the market of the types of assets that can be officially traded outside of organized markets, in compliance with article 59 of CVM Instruction 461/2007. The Guidance also details prohibited conduct when registering transactions resulting from OTC desk trading in B3's organized markets. This Guidance was drafted and validated jointly with the market and CVM, mainly within the scope of BSM's Market Advisory Committee.

Table 8 sets out the overview of investigations (Market Oversight Reports) in 2019.

### Table 8 – Reports initiated, completed and ongoing in 2019

Phase	No.
Initial caseload (Reports ongoing on January 1, 2019)	154
(+) Initiated reports	160
(-) Reports dismissed	(85)
(-) Cases submitted for CVM treatment	(64)
(-) Reports forwarded for enforcement measures	(14)
Final caseload (Reports ongoing on December 31, 2019)	151

### Supervision of securities issued by B3

BSM is responsible for analyzing transactions with the securities that B3 issues, pursuant to the provisions of Art. 58 of CVM Instruction 461/2007. In this way we assure that as an issuer of listed equities B3 complies with the general rules for all issuers. This activity is also performed by BSM Market Surveillance.





## PLANNING, CONTROL, DATA AND ANALYTICS

The Planning, Control, Data and Analytics multidisciplinary team seeks continuous development of performance indicators, of market surveillance and of management information produced by all areas. This allows surveillance and monitoring of the working program and of BSM's budgetary execution, through control tools to maintain the efficient allocation of resources and compliance with the requirements of the regulatory and administrative bodies.

## Managing the information, alerts, samples and indicators of all BSM areas

Activity is assured through studies of new data mining and business intelligence (BI) technologies used by the financial and capital market to maximize daily tasks. This guarantees greater accuracy and broadens the area of activity for decision making and generates proof to assure genuine investigation of the facts.

Information management and data engineering techniques are developed too, to allow more efficient performance of BSM's full range of activities. This work encompasses activities such as sample collection for auditing, data base management, the creation and improvement of alerts for monitoring transactions, and the creation of management dashboards for decision making.

Among the main tasks of Planning, Control, Data and Analytics are:

- development of models, with the Market Surveillance team, to identify transactions that show signs of irregularities

- generation of samples for work by the participants' audit team
- processing of indirect audit routines (audit via performance indicator)
- generation of dashboards with management indicators for BSM's main activities
- monitoring BSM's projects, particularly regarding the development, enhancement and implementation of systems
- timely meeting of demands of regulatory bodies and other institutions, such as CVM, Bacen, the Federal Police etc. for the gathering and submission of information

The main projects developed in 2019 by Planning, Control, Data and Analytics were:

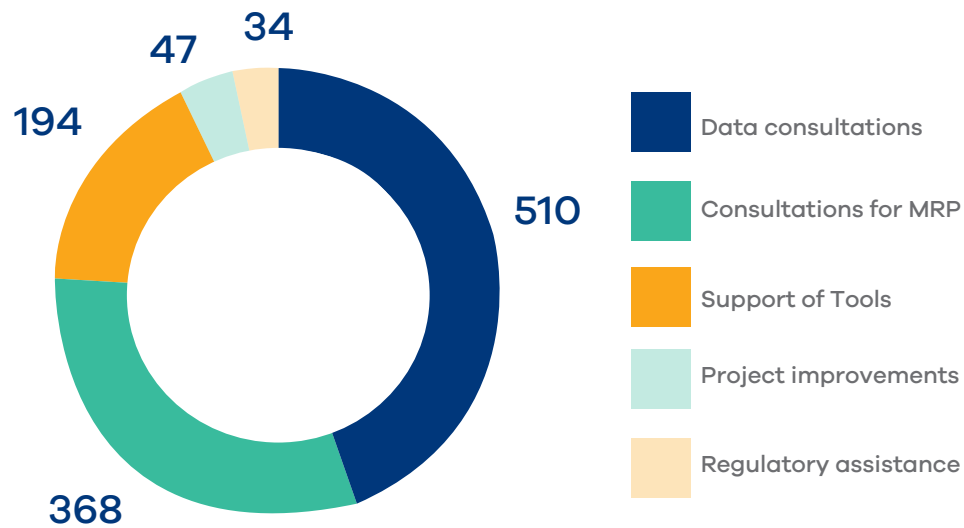
- improvements to the shared PML alert generated as per subparagraphs II and VI; development of the shared PML alerts generated as per subparagraphs I, III and VI; self-trading in auction; and automation of OTC data consultations together with the Market Surveillance area
- development of filters for CVM, among which Private Placement – CVM Instruction 476; relevant variations of forward and BTB (position limit) transactions; positions in OTC derivatives that are not centrally-cleared; and insider trading: one-shot

- enhancement of the cross-brokerage self-trading intentionality metrics, together with the Market Surveillance area, to comply with analyses for CVM
- publication of the RLP supervision communication, together with the other areas of BSM, and development of the RLP order surveillance filter together with the Market Surveillance area
- improved processes for sample generation and indirect audit tests of linked persons, and current account and investment club tests for operational audits, executed together with the Audit area

The new developments executed as projects in 2019 are reflected in periodically executed routines. The scenario before the implementation of these projects is of 35 routines in production, among which the generation of internal Market Surveillance alerts, the generation of bases and information for audits, and processing of information for consultation, projects and indicators.

In terms of on-demand activities for other areas, Planning, Control, Data and Analytics was responsible for 1,000 client assistance treatments in 2019. Of these, around half were to meet requests from the Audit area. Graph 2 shows the types of individual demands executed over the year.

**Graph 2 – Demands met in 2019**



Among control activities are access control and the curatorship of BSM tools and systems such as SAM Analysis and Report Control (CAR); the Legal area's Integra process control; classification and audit test matrixes; the Confluence and Jira knowledge and project management tools; and Sharepoint.

Planning, Control, Data and Analytics also has a team responsible for communication and marketing and for support in market guidance activities (training, workshops, video production and drafting reports for the general public and regulators), as well as for the production of content for the BSM website. This team is also responsible for receiving and monitoring complaints sent to BSM and for managing the Contact Center.

Planning, Control, Data and Analytics also carries out BSM's financial and budgetary monitoring. This activity encompasses surveilling the execution and control of BSM's entries, costs and expenses based on planning and management procedures, which allows managers detailed budget monitoring over the year.

The main benefits of BSM's financial management is optimization of our resource allocation among our many activities and the possibility of pricing the services that BSM can provide as a self-regulation body.

Finally, Planning, Control, Data and Analytics is responsible for financial control of the MRP, which encompasses investor compensation when complaints have been validated.

## RETAIL LIQUIDITY PROVIDER (RLP)

Retail Liquidity Provider (RLP) is a new type of B3 order that seeks (i) to allow the participant to provide liquidity for part of the inbound flow of retail clients' orders; (ii) to guarantee compliance with best execution principles; (iii) to maintain adequate functioning of price formation processes.

Planning, Control, Data and Analytics was significantly involved in all phases of this new mechanism, from discussions with B3's participants and the Supervisory Board, alignment with the regulator and collaboration with B3 for its implementation; to defining surveillance requirements. At present, the area is responsible for drawing up indicators for artificially held back orders in the order management systems of participants that trade with RLP, enabling secure surveillance in compliance with the defined parameters.

Furthermore, to draft External Communication 006/2019-PRE, dated November 26, 2019, regarding surveillance of transactions via RLP, this area and representatives of others carried out internal technical processual and conceptual alignments and visited eight participants to align expectations with the surveillance mechanisms' requirements.

## PROVISION OF SELF-REGULATION SERVICES

CVM launched a public hearing on rules to regulate organized securities markets, in substitution of Instruction 461 (Public Hearing SDM 9/19). While the public hearing only began in December, the matter had been discussed in depth throughout 2019 in the many spheres where BSM is present.

With this, BSM initiated a project headed by Planning, Control, Data and Analytics, which developed over the year and aimed to define the procedures and technological structure necessary for BSM to provide self-regulation services to other market operators (exchange and OTC) and infrastructure providers (such as depositories and registrars), so as to position itself as the market's sole self-regulator.

In this project, Planning, Control, Data and

Analytics worked with BSM's other areas on three major points:

- Creation, with external consulting, of a pricing model for self-regulation services, based on the costs of BSM's business objects.
- Onboarding of new platforms (with B3's Integrated Governance Department) to create an admissions process that defines procedures, required documentation and the areas involved when an institution (exchange, OTC, depository, or registrar) wishes to contract BSM's services.
- Infrastructure (with B3's Technology and Information Security Departments) to allow BSM to have physical and technological preparedness for performing self-regulation services.

## MANAGED FILE TRANSFER (MFT)

The new environment for file sharing with the market was officially implemented in 2019. The Managed File Transfer (MFT), implemented and managed by Planning, Control, Data and Analytics, began to be used in operational audits as of August and afterwards for other activities that entail the secure exchange of documents and files between BSM and participants. The new tool allows greater agility in the exchange of information and reduces costs for BSM and the market, while contributing a sustainability agenda in the use of materials.



## LEGAL & ENFORCEMENT

It is our job to guide the market, as we believe that proximity and collaboration with B3's participants creates a favorable environment for development of the capital and financial markets. We always favor cooperation, with coercive measures being a last resort in the form of penalties for irregularities that have been identified and proven through administrative proceedings that respect the right to a fair hearing and a full defense.

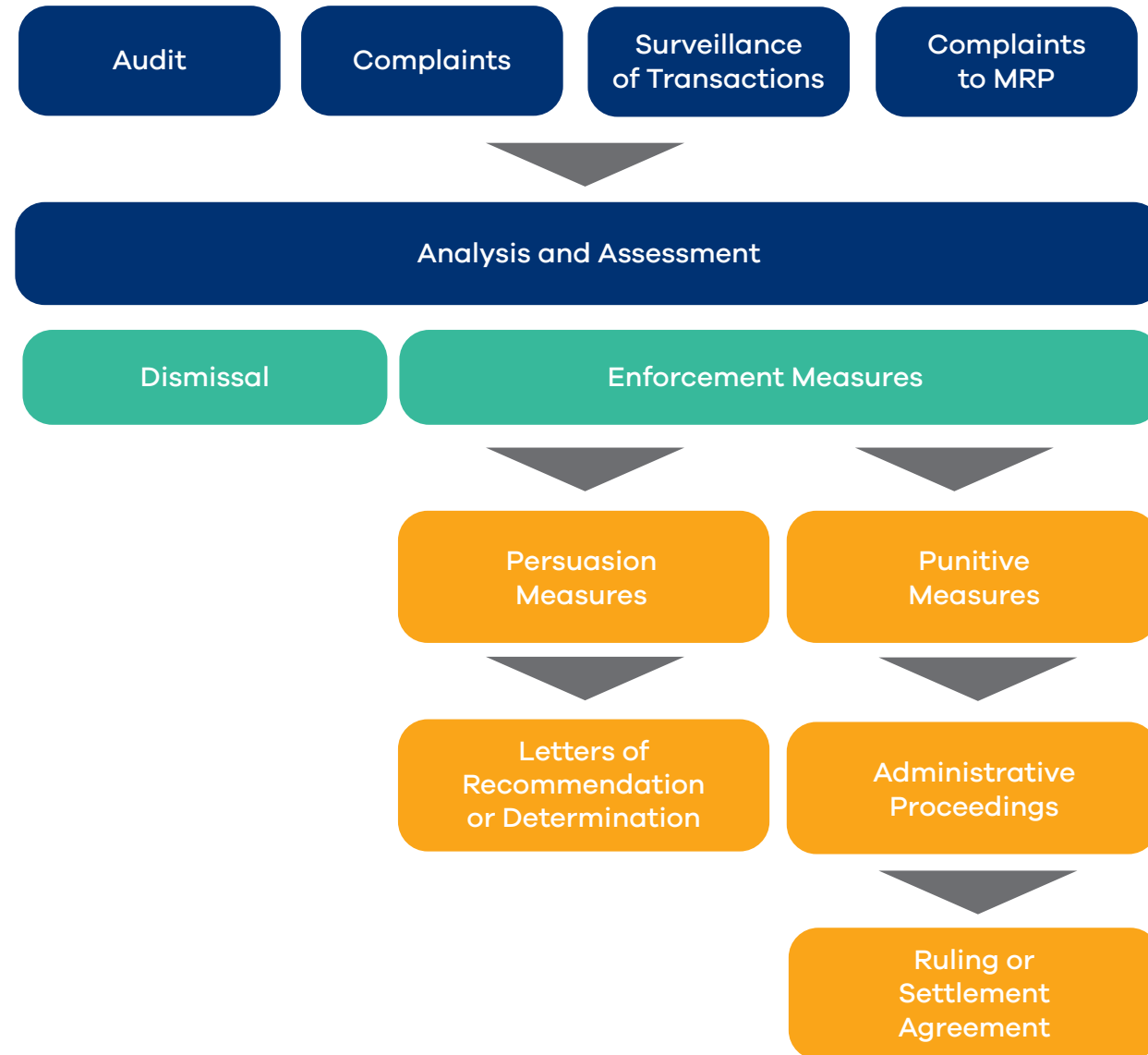


## Enforcement

BSM always handles irregularities and infractions that participants commit in the performance of their activities through education and persuasion measures and, in the last resort, through the application of penalties. In this way participants are always guided about the correct application of the rules that govern B3's markets. This governance activity, known as enforcement, seeks to improve participants' standard of conduct and encourage the adoption of appropriate internal controls.

As outlined in Figure 3, evidence of infractions discovered through surveillance, auditing, complaints to the MRP and complaints received are analyzed and may spark enforcement actions. These range from recommendations that the participant carry out improvements to its processes and controls, to bringing Disciplinary Administrative Proceedings (PAD), which could result in BSM penalizing participants of B3 and their proxies.

**Figure 3**  
Enforcement outline diagram



## Letter of Recommendation and Letter of Determination

During surveillance, BSM comes across irregularities which usually do not require a PAD but only special attention on the part of the participants. In these situations, we can send a letter of recommendation or of determination for the cessation of such practices, as a guidance measure to prevent recurrence.

In the Letter of Recommendation, we guide the participant towards improving determined conduct, rules, procedures, and/or internal controls. We can also determine the adoption of a plan of action to improve the points singled out in the letter. In this plan the participant must designate the measures to be adopted and the respective timeframe for implementation.

In the Letter of Determination, we alert the participant about an irregular practice and determine that it be curbed and not repeated.

In 2019, 713 Letters of Recommendation were sent due to irregularities identified in indirect audits, such as noncompliance with B3's economic and financial requirements and transactions by persons linked to another participant. There were also 16 Letters of Determination sent.

## Disciplinary Administrative Proceedings (PAD)

On specific occasions, when there is a breach of the rules or regulations to which the participants to B3s markets are subject, BSM may initiate a PAD to analyze and decide upon the treatment a participant should receive in relation to the breach committed.

B3's participants, their representatives (partners or directors) or proxies (traders or self-employed investment agents) are in BSM's remit.

In more serious cases, in which there must be a penalty, BSM's Corporate Bylaws foresee:

- warnings
- fines
- suspensions of up to 90 days
- temporary disqualifications of up to ten years
- other penalties provided for in B3's rules and regulations

These administrative proceedings observe constitutional procedural principles such as the right to a fair hearing and a full defense and are conducted in accordance with BSM's Procedural Rules, which are approved by the Securities and Exchange Commission of Brazil and available on the website [www.bsmsupervisoao.com.br](http://www.bsmsupervisoao.com.br), in the section Legislação e Regulamentação | Leis, Normas e Regras, BSM, Regulamento Processual.

The administrative proceedings are judged in the first instance by the Self-Regulation Officer (in the cases of summary PADs) or by the Panel of the Supervisory Board, comprised of three members determined by a draw and with a majority of independent board members (in cases of summary PADs).

If there is a conviction in the first instance, the offender can appeal to the plenary of the Supervisory Board, which is made up of its 11 members. Within the scope of the PAD, a settlement agreement may be signed at any time if the offender presents the proposal before the date on which the case is judged in the first instance.

The BSM Supervisory Board analyzes the settlement agreement proposal and may accept it, reject it, or make it conditional, bearing in mind its opportunity and convenience, as well as the nature and seriousness of the analyzed infractions, the prior record of the offenders, procedural economy and the realistic possibility of punishment in concrete case.

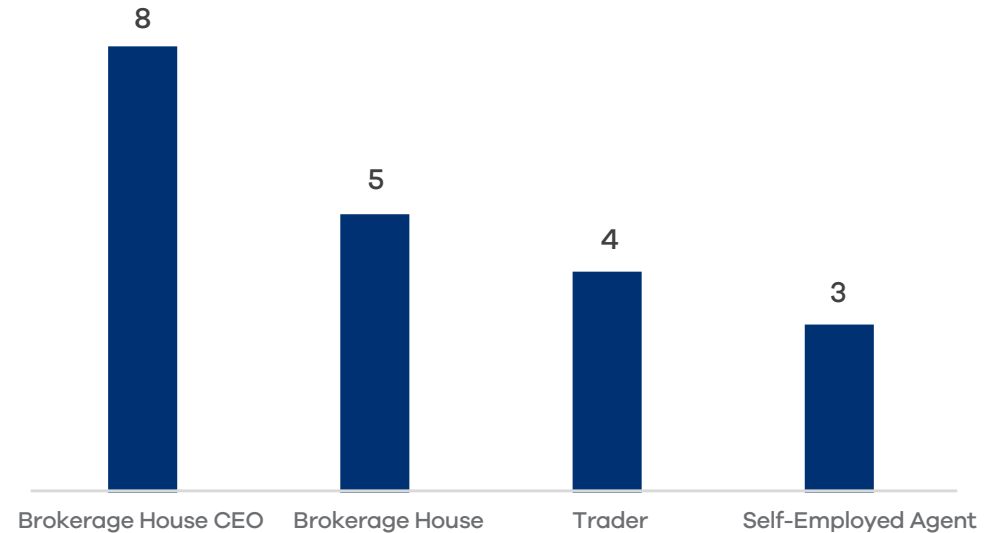
The settlement agreement requires the offender to cease the irregular activity and correct the irregularities that brought about the PAD and must pay compensation for any losses. The settlement agreement carries no weight in regard to the confession of facts nor to recognition of the illicit nature of the conduct analyzed by the PAD.

PADs end upon compliance with the settlement agreement but

resume their regular course and go to judgment if there is failure to comply.

In 2019, BSM brought eight PADs involving 20 offenders, as illustrated in Graph 3. In addition to these PADs were five proceedings originating from operational audit reports, where participants and proxies involved in evident irregularities submitted settlement agreement proposals prior to a case being judged.

**Graph 3 – Types of accused in PADs brought in 2019**







## ADMINISTRATIVE ACTIVITIES

A specialized administrative and support team helps us to perform efficiently the activities described in the previous pages.

The administrative assistance team's main tasks are described below.

- Drafting, submitting, receiving and controlling correspondence
- Scheduling and controlling internal and external meetings, travel and other engagements
- Drafting, checking and submitting reimbursement and payment applications (Supervisory Board, officer, managers and teams).
- Controlling office material, equipment, meeting rooms and subscriptions to periodicals
- Assembling, digitizing and filing case files
- Personal and telephone services

Table 9 sets out the main deliveries of 2019.

### Table 9 – Administrative support in 2019

Activity	Number	Monthly Average
Correspondence submitted	9,347	779
Correspondence received	2,473	206
Document digitizing (no. of pages)	94,120	7,843
Processing of receipts	1,015	85
Flight and hotel bookings	1,203	100

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