
Activities Report

2009

BSM



***BM&FBOVESPA
MARKET SUPERVISION***

PRESENTATION

Brazil has stood out as one of the countries that has best faced the crisis which affected the international financial markets, as of the 2nd half of 2008.

If, in the international scenario, the failures in regulation and surveillance of the markets and their players were noted as decisive in worsening the crisis, in the domestic scope, the high level of public regulation of the securities markets and the quality of its private surveillance and inspection of the stock markets enabled better absorption of its impacts.

With the purpose of providing continuity to the actions of constant strengthening and improving the instruments for regulation and self-regulation of the securities market, BSM, based on a close relationship with the regulatory bodies, undertook, during 2009, several initiatives, some of which are highlighted below.

In order to meet growing demand in its several areas of activities, BSM promoted a resizing of its workforce, and welcomed 21 new employees on its staff during the year.

Special attention was given to reinforcing the audit area which, in order to comply with its annual scheduling, resorted to hiring an outside audit company during the year's first half. To quantitatively adjust the team, the workforce of auditors was increased in this period, with in-field training.

At the same time, investments were made to improve the qualification of the teams, as the excellence of BSM's functional workforce is essential to respond to the perspective of expansion and continuous sophistication of the securities market in the coming years. In this respect, 17 courses were held in 2009, totaling approximately 800 hours of training.

In the market surveillance activities, better efficiency and greater coverage was obtained with automation and intensive use of statistical tools for more precise selection of samples from the universe of trades performed. The use of new resources enabled greater precision in identifying cases with indications of irregularities.

With respect to the periodical inspection of market players, a new operational audit methodology was adopted, which was applied to the totality of the 88 players, having reached the verification goal – at the premises of the institutions – of examining the regularity of the records and compliance with the rules that guide the trades carried out through such institutions.

As to the legal support activity, a specific team was set up to analyze the complaints to the Mechanism for Compensation of Losses (MRP), maintaining a group exclusively dedicated to the conduction of administrative processes. These changes, added to the simplification of the procedural ritual and the implementation of a tool for management of proceedings, enabled increasing the speediness of the work.

So as to consolidate BSM's image as a nationally and internationally acknowledged self-regulatory entity, the participation in international forums for exchanging information and following the trends of the self-regulatory activity deserves to be highlighted.

BSM became an affiliate of *The International Organization of Securities Commissions* – IOSCO and the *Council of Securities Regulators of the Americas* – COSRA, and became a member of committees and workgroups related to the self-regulatory activity, where it had the opportunity of presenting its self-regulatory model, stressing the positive points of Brazilian regulation in facing the international financial crisis.

ACKNOWLEDGEMENTS

The Management expresses its thanks to the collaborators, to BM&FBOVESPA S.A, to the market players, and to the regulatory bodies for the results attained in 2009, towards consolidating BSM as a nationally and internationally acknowledged self-regulatory entity.

MARKET SURVEILLANCE

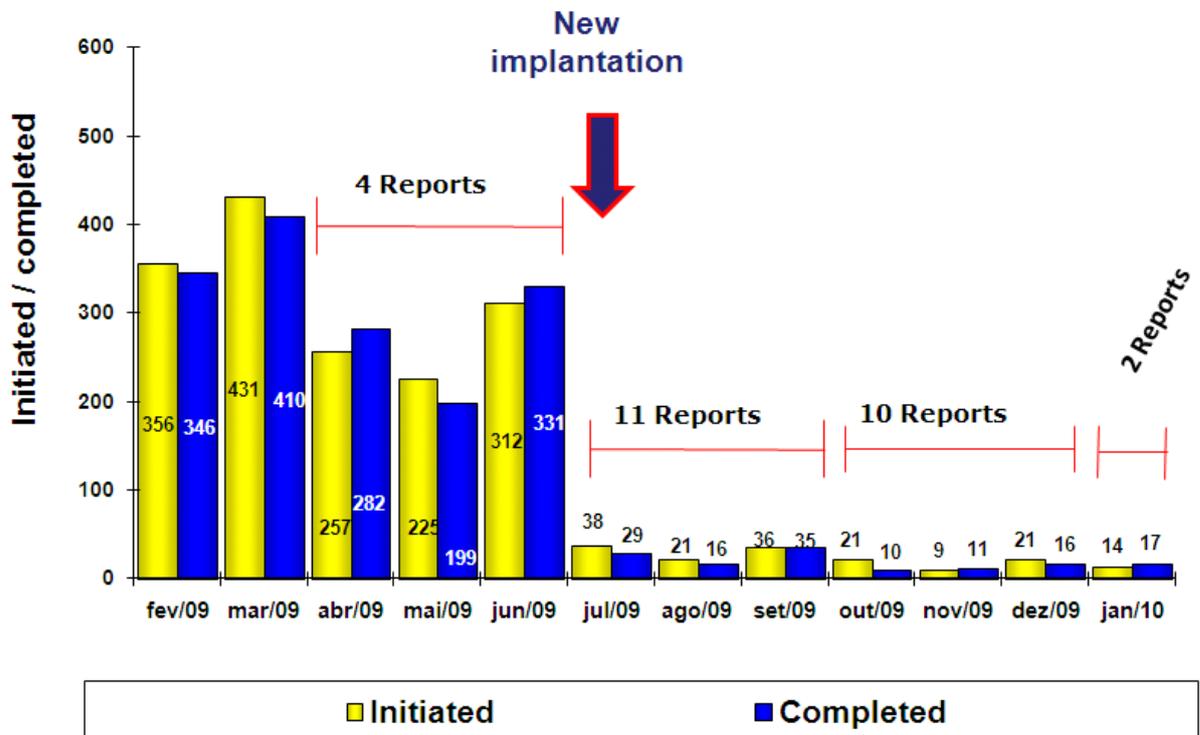
BSM's surveillance activity consists in using, in a coordinated and continuous manner, monitoring procedures in the BM&FBOVESPA markets. In the direct follow-up of the market, surveillance is focused on trades carried out in the spot, forward and derivatives markets, in order to detect deviations that might be related to the performance of irregular trading.

The purpose of this activity is to identify trades, investors and market players that have breached the provisions of the regulation in force and the standards and procedures of the BM&FBOVESPA, especially with respect to irregular exercise of activity in the securities market; creation of artificial conditions of demand, supply or price; manipulation of prices; performance of fraudulent trades; exercise of unfair practices and the use of inside information.

In 2009, the use of computational and statistical resources in the area of market surveillance was intensified, aiming at improvement of the analyses, better selection of samples, development of new methodologies, and expansion in the universe of the trades inspected.

Graph 1 indicates the evolution of the surveillance of investors' participation, with the objective of identifying violation related to fraudulent trades, money laundering, and irregular exercise of activity in the securities market. The graph indicates the number of analyses begun and closed in each month.

GRAPH 1
Surveillance of Investors' Participation



In July, a new methodology was implemented for extraction of samples through the use of statistical tools, which made feasible analysis of all the trades carried out in the BM&FBOVESPA trading environments, as well as issuance of warnings about trades with indication of violations. This enabled greater efficiency in the analysis of trades conducted by BSM collaborators, which since then focus their attention exclusively on trades which present strong signs of irregularities.

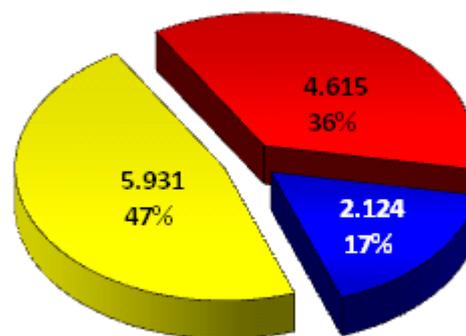
Thus, intensive use of computational and statistical resources enabled, at the same time, analysis of all the trades carried out in the BM&FBOVESPA markets and greater accuracy in selecting a sample to be checked by the BSM's functional workforce.

A comparison of the number of reports from these analyses demonstrates the gain in efficiency and assertiveness with the implementation of the new methodology (data mining program). These reports are documents that mirror strong indications of irregularities and, in general, originate the BSM administrative processes.

It can be noted that, in the second quarter, that is, in the quarter immediately prior to the implementation of the new methodology, samples were selected from a total of 19.9 million trades, which provided 812 analyses, and resulted in 4 reports. In the third quarter, with the implementation of the new methodology, all the trades (21.4 million) were examined by the system, producing 80 analyses, which resulted in 11 reports. In the year's last quarter, when the system's parameters were fine-tuned and perfected, even greater effectiveness was obtained, since out of a total of 23.5 million trades, 37 analyses were performed, which resulted in 10 reports.

Market surveillance also encompasses analysis of securities trades issued by BM&FBOVESPA itself (self-listing) and preparation of specific reports requested by the Securities and Exchange Commission (CVM).

GRAPH 2
Market Surveillance –
Analyses performed in 2009



It should be stressed that BSM's actions are based on a close relationship with the CVM, and a mutual objective of constantly improving the efficiency of the

- Analysis of indications of violations of regulatory rules
- Analysis of operations in disagreement with the parameters
- Analysis of prices and liquidity behavior

instruments for regulation and self-regulation of the securities market. Because of this, all the work performed by BSM is followed by this independent agency, which receives timely warnings, in the case of indications of serious violations.

Besides timely warnings, reports are also prepared for the regulatory body, about possible noncompliance with the legal and regulatory rules in force in the markets managed by the BM&FBOVESPA, deviations noted in the trades, and measures adopted to remedy such violations.

It should be stressed that all the trades carried out in the BM&FBOVESPA were analyzed as to compliance with CVM Instruction nº 168/91, and that, as of July, the analyses related to indications of participation of investors in fraudulent trading, money laundering and irregular exercise of activity in the securities market encompassed all the trades carried out (around 44.9 million trades).

Table 1 and Graph 2 summarize the market surveillance work performed in the year.

TABLE 1	
Market Surveillance – in numbers	
Analyses related to participation of investors, with the objective of identifying violations of legal and regulatory rules, especially those dealing with fraudulent trades, money laundering and irregular exercise of activity in the securities market.	2,124
Analyses of trades as to the compliance with BM&FBOVESPA operating regulations and CVM Instruction nº 168/91, which resulted in cancellation of 2,317 trades.	5,931
Analyses related to the behavior of prices and liquidity of assets and derivatives, especially with respect to artificial conditions of demand, supply or price; manipulation of prices; fraudulent trading; unfair practices and use of inside information.	4,615
Total	12,670

AUDITING OF MARKET PLAYERS

BSM also has the role of periodically inspecting the players of BM&FBOVESPA. In supervising the market players, audits are investigative and directed to broad inspection of institutions, with the objective of checking compliance with legal and regulatory rules.

The inspection may be made both at the premises of the institution, or remotely, in the cases where physical presence is not necessary.

- ✓ At the premises (market player): consists of audits, performed on the premises of the institutions under supervision, to examine adherence to rules. Items such as information technology, investment clubs, homebroker, ombudsman and independent agents are evaluated, besides operating procedures related to clients register, receipt and registration of orders, specification of principals, deposit of guarantees, settlement of trades and custody of assets.
- ✓ Remote: consists of combination of information obtained from the several BSM areas of action, from BM&FBOVESPA databases, from complaints received from investors, from accusations by third parties, among other sources, with the objective of inspecting compliance with the applicable rules.

With respect to the periodical inspection of players, a new audit method was adopted, which had been revised and tested in 2008, with the help of a consultancy retained for this purpose.

Among the improvements implemented, highlights are the increase in scope and standardization of the period and the tests executed at each institution under audit. The audit began contemplating all the market players, evaluating items such as risk, information technology, investment clubs, homebroker, ombudsman and independent agents, besides register, negotiation, settlement and clients' custody processes.

The goal of the Annual Operational Audit Plan was to check, at the premises of the institutions, the regularity of the records and the trades carried out through 97 players. Because of corporate reorganizations, the number of players was reduced to 88 institutions at the end of 2009.

Graph 3 shows the stage of the operational audits at the end of 2009, which are classified in 5 phases:

1st) Scheduled operational audits: indicates audits projected to begin in the future;

2nd) Field survey: corresponds to audits underway at the institutions for data survey;

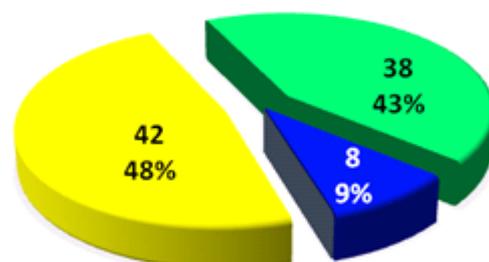
3rd) Preliminary audit report: covers from the preparation of the first draft of the audit report to its review with the institution under audit;

4th) Final audit report: includes preparing and sending the final report to the Self-Regulatory Officer, including players' comments about the points indicated in the report; and

5th) Complete audit report: includes analysis of report by the Self-Regulatory Officer and adoption of measures determined by him.

It can be noted that more than 90% of the players were audited in the year, corresponding to more than 25 thousand hours of audit activities. In Jan/2010, audits are scheduled at 8 players, attaining the totality of players and completing the cycle of audits begun in 2009.

GRAPH 3
2009 Annual Audit Plan
(88 participants)



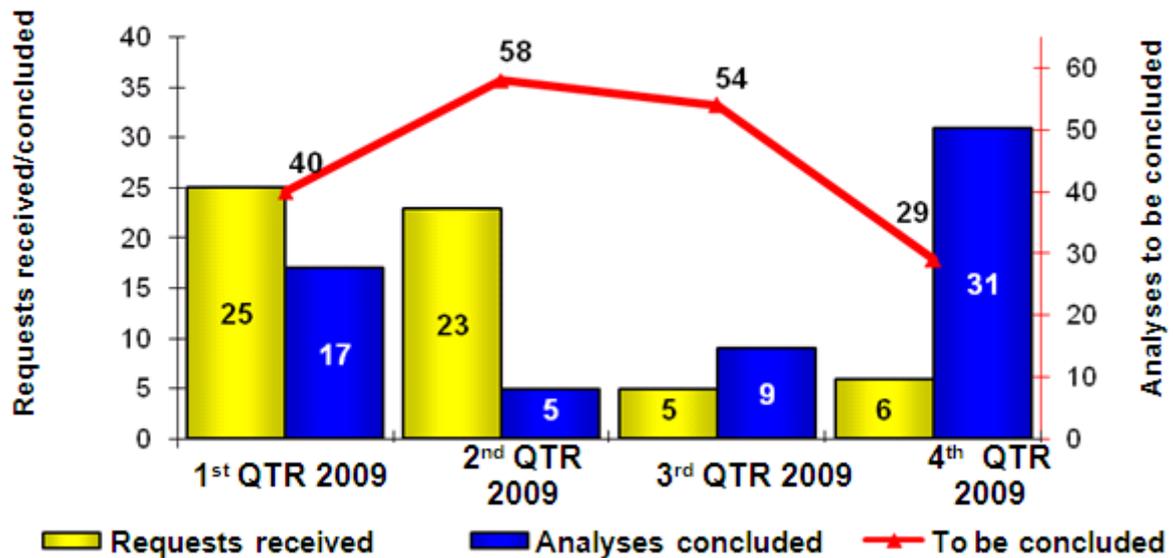
- Scheduled operational audits
- Preliminary audit report
- Final audit report

In order to fulfill the Annual Audit Plan, it was necessary to retain an outsourced auditor, but as of the year's first half, BSM increased the number of auditors through hiring. By participating in teams with the presence of experienced auditors from BSM and the outsourced auditor, the new auditors received in-field and, as of the year's second half, were qualified for the next audit cycle.

Besides the audits included in the Annual Operational Audit Plan, BSM performed specific audits demanded by the CVM (trades by non-resident investors registered at the BM&FBOVESPA and half-yearly audit of electronic connections – homebroker, as required by CVM Instruction 380/02). It also performed audits demanded by inside areas of the BM&FBOVESPA, by request of the Ombudsman, and to support complaint proceedings presented to the MRP and administrative proceedings established, as per Table 2.

TABLE 2	
Auditing of Market Players – in numbers	
Operational auditing of participants	80
Audits related to MRP proceedings	62
Audits requested by the Ombudsman	25
Audits requested by inside areas of the BM&FBOVESPA	3
Audits requested by the CVM	2
Auditing of electronic connections (homebroker)	2
Audits related to administrative proceedings	2
Total	176

GRAPH 4
Audits performed for MRP proceedings



In Graph 4, the evolution of audits requested to support proceedings of complaints to the MRP can be noted, as well as the reports effectively prepared. In 2009, 59 reports of this type were requested and 62 were concluded, of which 40 were prepared in the year's second half, which was possible due the increase in the auditors' team.

**INVESTIGATIONS, INQUIRIES,
ADMINISTRATIVE PROCEEDINGS AND INSTRUMENTS OF COMMITMENT**

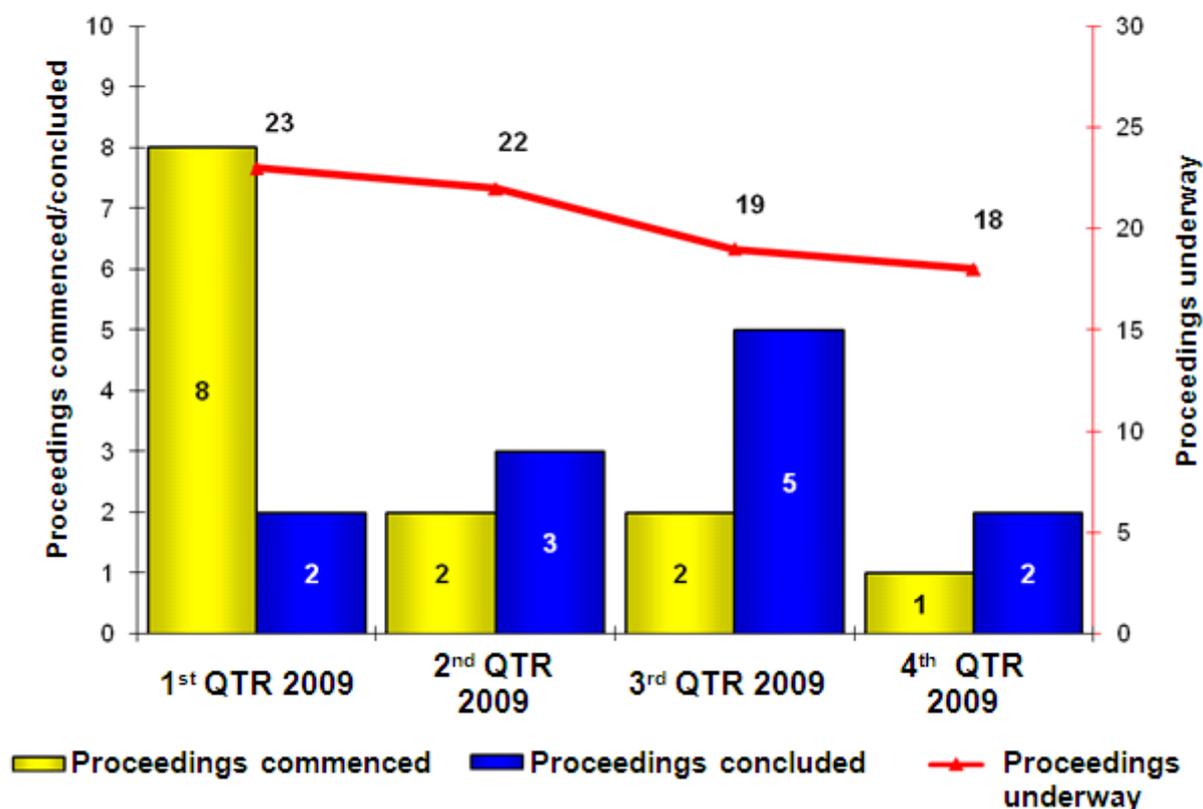
BSM is responsible for the commencement, conduction and fact finding of administrative proceedings related to violations of legal and regulatory rules per chance practiced by players in the securities market. This disciplinary activity aims at improving the standards of conduct of players and their internal controls, in addition to avoiding recurrence of violations.

In the cases in which irregularities committed by players are verified, BSM applies penalties, according the provisions of CVM Instruction nº 461/2007. As disciplinary measures, BSM can apply the following penalties:

- ✓ Warning;
- ✓ Fine;
- ✓ Suspension (up to 90 days); and
- ✓ Temporary disqualification (up to 10 years).

In Graph 5, the evolution of the administrative proceedings commenced can be noted. BSM began the year with 17 proceedings underway, and commenced during the year, 13 new administrative proceedings. 2 administrative proceedings were judged, which resulted in the application of a warning (Table 3). Another 10 proceedings were concluded by means of compliance with instruments of commitment (Graph 6). At the end of 2009, 18 proceedings were underway.

GRAPH 5
Evolution of Administrative Proceedings



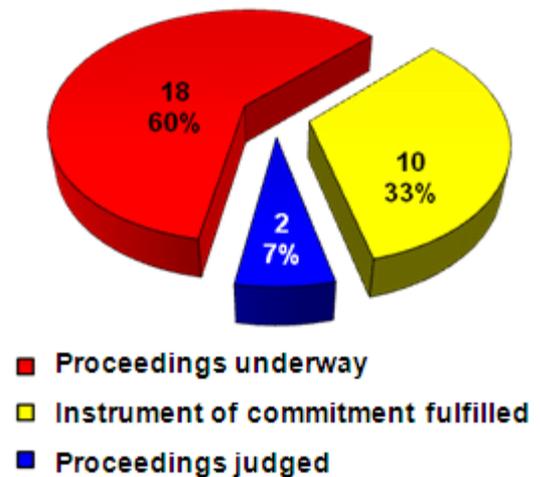
An efficient way of suspending the progress of the administrative proceeding is to enter into instruments of commitment. In general, these instruments encompass the commitment of the participant to adopt measures so as to avoid reiteration of the occurrences that justified commencement of the proceeding. Such instruments of commitment sometimes establish the payment to BSM of a pecuniary sum which is totally reverted to the improvement of self-regulatory activities.

TABLE 3 Results of Administrative Proceedings			
Administrative Proceedings Judged		Executed Instruments of Commitment	Total
Convicted	Absolved		
1 (Warning)	1	28 (R\$ 2,170 thousand)	30

In total, BSM entered into 28 instruments of commitment, the pecuniary sums of which totaled R\$ 2,170 thousand (Table 3). These instruments were executed as a result of 1 inquiry and 15 administrative proceedings. The proceeding is only closed when the instrument of commitment is fulfilled. If the institution does not fully and properly comply with the obligation undertaken under the instrument of commitment, the proceeding is resumed, without prejudice to the future application of applicable penalties.

GRAPH 6
Administrative Proceedings

Situation in December/2009



It should be stressed that administrative proceedings may involve, in addition to financial institutions, their representatives and/or employees (individuals), who are also offered the choice of entering into instruments of commitment.

In this respect, of the 28 instrument of commitment signed in 2009, 12 involved individuals. The 2 proceedings judged involved legal entities.

MECHANISM FOR COMPENSATION OF LOSSES (MRP)

BSM manages the Mechanism for Compensation of Losses (MRP), the purpose of which is to ensure compensation of losses of investors, caused by action or omission of market players. In this respect, BSM is responsible for the analysis of complaints presented by investors, as well as for the commencement, conduction and finding of facts of the MRP proceedings arising thereof, under the MRP.

Based on analysis of the historical data of the evolution of investors' complaints received within the scope of the former Guarantee Fund, managed by the Bovespa, and those received in the current MRP, managed by the BSM, it can be noted that as of 2007, there was a significant growth in the number of complaints, probably justified by the greater participation of individual investors in the BM&FBOVESPA markets (Table 4). The total number of complaints received in 2009 was 688% higher than that received in 2006.

TABLE 4
Historical data of complaints to the MRP

	GUARANTEE FUND - BVMF			MRP - BSM	
	2005	2006	2007	2008	2009
Complaints received	17	17	47	143	134
Monthly average	1.4	1.4	3.9	11.9	11.2
Variation	-	0%	176%	204%	-6%
Volume traded by Individuals in the Bovespa segment					
Annual volume (R\$ billions)	4,9	7,2	13,6	17,7	19,3
Variation	-	47%	88%	31%	9%

The growth noted since 2007 was even greater in 2008 and 2009, which phenomenon is possibly explained by the increase in market volatility¹ (27% in 2007, 51% in 2008 and 31% in 2009) and by the greater disclosure of the MRP with small investors (31,435 external consultations to the BSM website, in 2008, and 52,658 in 2009).

The MRP began the financial period with an inventory of 121 complaints underway. During the year, the BSM received another 134 demands, totaling 255 complaints. 49 complaints were filed because of lack of grounds or because of lateness.

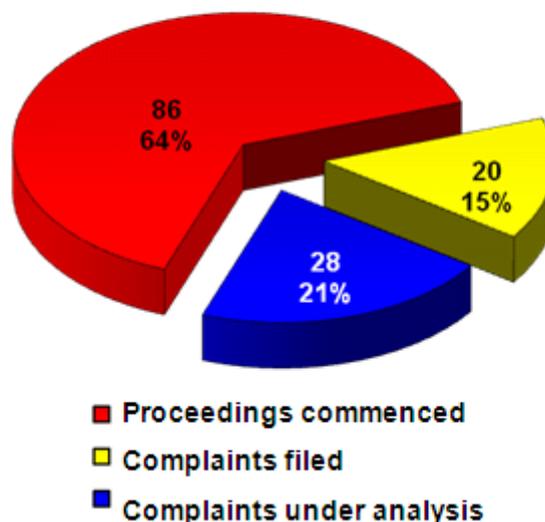
The Surveillance Council concluded, with judgment on merits, another 37 complaints. With this, the BSM concluded 86 demands in 2009 (105% more than in the previous year), and 169 complaints remained underway at the end of the year (table 5).

In all, 100 MRP proceedings were commenced in 2009. For the finding of facts of the referred to proceedings, 62 audit reports and 30 legal opinions were prepared.

TABLE 5		
Mechanism for Compensation of Losses - MRP		
	2008	2009
Initial inventory	20	121
Complaints received	143	134
Complaints concluded	42	86
Filing	14	49
CS Judgment	28	37
Final inventory	121	169

¹ Volatility was defined as the standard deviation of the daily variation (in terms of index-number) of the Bovespa Index annualized for 252 auctions.

GRAPH 7
Complaints to MRP received in
2009

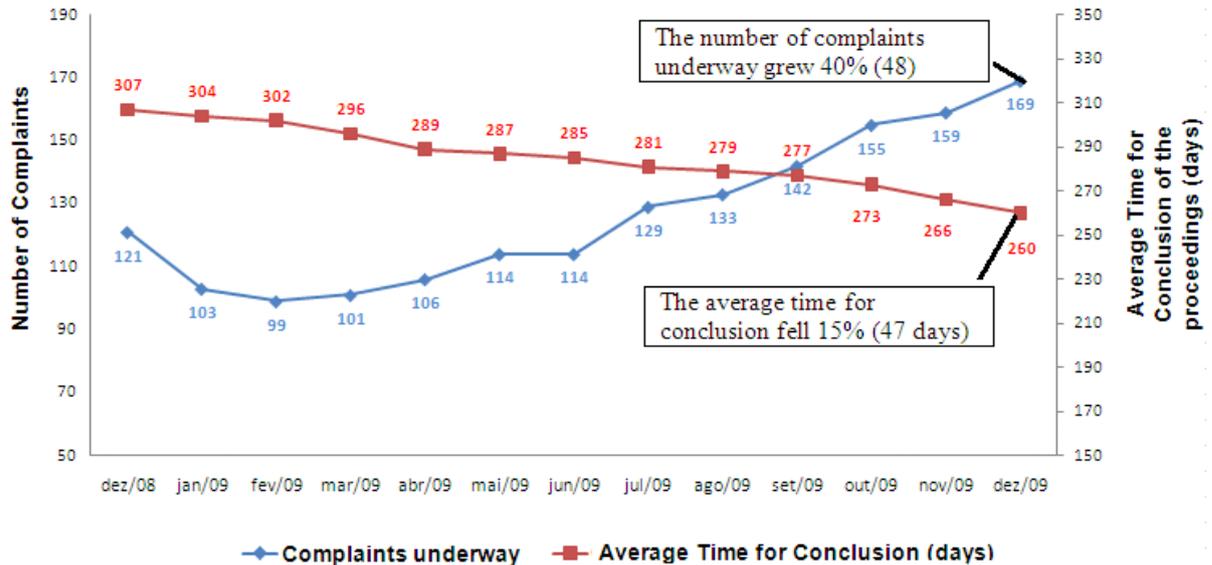


Considering the 134 complaints received during the year, 86 proceedings were commenced, 20 complaints were filed, and 28 are under analysis by BSM (Graph 7).

At the end of 2008, the average period for conclusion of the complaints² was 307 calendar days. This period was reduced by 47 days at the end of 2009 (Graph 8). This means that, even with the growth of 40% of the complaints underway, they are being resolved by the BSM within an ever shorter period, having attained an average of 260 days at year's end.

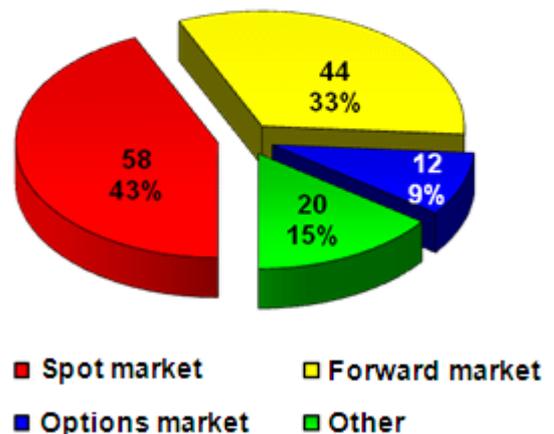
² The calculation of the average period for conclusion of the complaints to the MRP takes into account the time, from the date the complaint is registered to its conclusion at the BSM, of all the complaints received since January 2007 and that were concluded up to the month considered, from December 2008 to December 2009.

GRAPH 8
MRP – Complaints X Time for Conclusion



As to the markets involved in the requests, it can be noted that most of the complaints refer to trades in the spot and forward markets, which together account for 76% of the complaints (Graph 9).

GRAPH 9
Markets involved
MRP – 2009



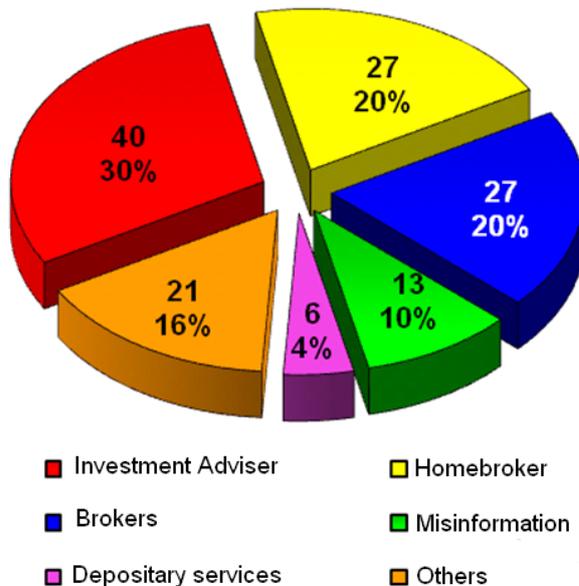
The options market was also outstanding this year because it represented the origin of almost 10% of the complaints.

Among the main problems alleged by investors in the complaints presented in 2009, the prevalence of complaints related to the actions of independent investment agents (30%) stand out, under allegations of:

- (i) Promise of minimum profitability;
- (ii) Not sending investment statements or sending fictitious statements; and
- (iii) Execution of trades without investor’s authorization.

It was noted that, in some cases, the allegations were based on the action of independent agents operating as proxy or manager of investment portfolios, in which investors complain about trades carried out without request or authorization.

GRAPH 10
Origin of the main
complaints to MRP - 2009



When indications of irregularities of this nature are identified, the cases are also analyzed under an independent MRP procedure, that is, by means of an administrative proceeding commenced by the BSM.

Complaints arising from the use of homebroker (20%) also stand out, most of which address delay in updating of positions, instability and slowness of systems.

Among the complaints that involve allegations of violations committed by operators (20%), the prevalence is the allegation of trades not authorized by investors (Graph 10).

By analyzing the complaints concluded in the year, it can be noted that more than half of the conclusions occurred by filing, without commencement of a proceeding.

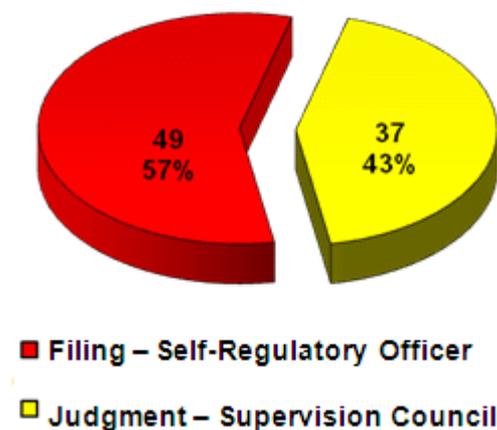
The filing is done by the Self-Regulatory Officer when the complaint does not fulfill the requirements demanded in the regulation (Graph 11). In most cases, the filing occurred because of lateness, that is, complaint presented after the specified period³.

³ Since the edition of CVM Instruction nº 461, the period for the investor to request compensation of losses has become 18 months, counted from the date of occurrence of the action or omission that gave rise to the request. Before, still in the validity of Resolution nº 2.690 of the National Monetary Council, the period for presenting of a request for compensation to the former Guarantee Fund was six months, counted from the occurrence of the action or omission that would have caused the loss, or the date of acknowledgment of the fact.

The Surveillance Council judged 37 MRP proceedings, which represent 32% more than in the previous year.

Of the 12 appeals referring to complaints to the former Bovespa Guarantee Fund and to the current MRP judged by the CVM in the year, in 11 of them the decision made in the scope of the BSM or the former Bovespa was maintained (2 at the BSM Surveillance Council, 3 at the Self-Regulatory Office, and 6 at the Bovespa Board of Directors). Only one decision referring to the former Bovespa Guarantee Fund was reversed in 2009.

GRAPH 11
MRP Conclusion in 2009



NORMATIVE REVIEW

BSM actively participated, together with the BM&FBOVESPA and the CVM, in the discussion aiming at reviewing the norms related to investment clubs and the action of independent investment agents. In addition to this, it also participated in the updating of the BM&FBOVESPA Operational Qualification Program (PQO).

BSM also presented comments and suggestions about the proposals for changing CVM Normative Rulings Nos 301/99 and 387/03, which present innovations as to the introduction of principles related to the duty of market players of previously verifying the adequacy of the trade intended to the client's profile (suitability).

INTERNATIONAL INSERTION

In September, the BSM became an affiliated member of the Council of Securities Regulators of the Americas (COSRA), which was created in 1992 to stimulate mutual cooperation and exchange of information between regulatory authorities.

The organization counts on the participation of regulators from the entire region of the Americas, encompassing developed and developing markets, which work together to implement and improve normative structures of quality and to maintain the integrity of markets.

The affiliation occurred together with other Brazilian self-regulators (ANBIMA, BM&FBOVESPA and CETIP), which indicates the strengthening of the institutional presence of Brazil in one more international forum.

The BSM was institutionally represented in the following international events, in which it had the opportunity to present its self-regulatory model and participate in the debates about the themes developed:

- ✓ 34th Annual IOSCO (International Organization of Securities Commissions) Conference
Tel Aviv, Israel, June – Org: IOSCO.

- ✓ Bi-annual meeting of the SROCC (Self-Regulatory Organizations Consultative Committee) of the IOSCO
Tel Aviv, Israel, June – Org: IOSCO.

- ✓ ACSDA Leadership Forum 2009
Santiago, October – Org: ACSDA.

- ✓ COSRA Meeting and Payments Week Meeting
Punta del Este, November – Org: COSRA.