

---

---

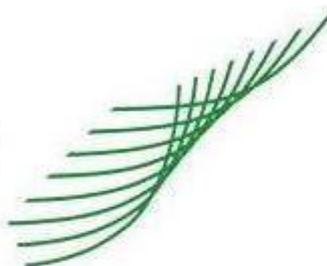
# ACTIVITIES REPORT

2012

---

---

**BSM**



**BM&FBOVESPA  
SUPERVISÃO DE MERCADOS**

## INTRODUCTION

With globalization and the intense exchange between countries, the capital markets are becoming increasingly important to the world economy. Thus the more active the capital markets the more the economy develops.

In 2012 Brazil followed the international trend in this respect. Total trading volume in the Bovespa segment reached an all-time high of R\$1.8 trillion, exceeding the 2011 milestone of R\$1.6 trillion. Average daily trading volume was R\$7.2 billion, also a record, compared with R\$6.5 billion in the previous year.

The Brazilian market is on the way to becoming a global financial center.

The changes in the markets are accompanied with special attention by regulators and self-regulatory organizations in Brazil and worldwide.

International bodies such as BIS<sup>1</sup> and IOSCO<sup>2</sup> published important documents and recommendations on market regulation and supervision in 2012.

These include recommendations regarding the clearing and settlement of standardized derivatives in *Requirements for Mandatory Clearing*, a report from IOSCO that advises national authorities on how to treat the G20's recommendation on migrating all standardized over-the-counter derivatives to trading platforms

with a central counterparty, and another IOSCO report, *Suitability Requirements with respect to the Distribution of Complex Financial Products*, setting out principles regarding the suitability of financial products to investor profiles.

A number of regulatory advances in Brazil are worth highlighting. They include the issuance by Comissão de Valores Mobiliários (CVM), Brazil's securities and exchange commission, of Instruction 521/2012, which regulates the activity of credit risk rating in the securities markets, and Instruction 530/2012, which prohibits investors from buying shares in a public stock offering in order to cover a short sell of the offered shares on the date the pricing is fixed and in the five trading sessions that precede the public offering.

CVM also published draft amendments to the following rulings for public consultation: Instruction 301/1999, to adapt CVM's rules and regulations to international recommendations on the prevention of money laundering and terrorism funding; Instruction 359/2002, on the creation, administration and functioning of exchange-traded funds (ETFs); and Instruction 529/2012, requiring all securities market institutions to establish ombudsmen.

BM&FBOVESPA Supervisão de Mercados (BSM) participated actively in these public consultations, submitting comments and suggestions.

BSM launched several initiatives of its own during the course of 2011 to continue strengthening and upgrading the instruments

<sup>1</sup> BIS = The Bank for International Settlements.

<sup>2</sup> IOSCO = The International Organization of Securities Commissions.

of securities market regulation and self-regulation, leveraging its close relationships with regulators, and focusing on market integrity and investor protection.

Finally, it is important to note that 2012 began with the formidable challenge of eliminating the backlog of cases and reports, and with great expectations for the performance and operational efficiency of BSM's new structure.

The main results of BSM's activities in 2012 are presented in the following pages.

## MARKET SUPERVISION

BSM's market supervision activities consist of the coordinated and continuous deployment of procedures to monitor the markets operated by BM&FBOVESPA with the aim of detecting deviations that may relate to the execution of irregular transactions.

These activities endeavor to identify participants, market professionals or investors responsible for infringing the applicable rules and regulations, including BM&FBOVESPA's norms and procedures. In particular, BSM seeks to detect the creation of artificial demand, supply or prices, price manipulation, fraudulent transactions, unfair practices, insider trading, and the irregular exercise of activities in the securities markets. Figures 1a and 1b show the market supervision workflow and numbers.

Adequate and efficient market supervision requires the intensive use of computing and statistical resources, and highly qualified staff. All transactions performed in the markets managed by BM&FBOVESPA are analyzed by BSM's market supervision systems, which issue alerts on cases requiring further investigation.

BSM has access to all BM&FBOVESPA's databases and can request any information deemed necessary from the institutions that participate in the exchange.

All transactions performed in BM&FBOVESPA's markets are analyzed by BSM.

Figure 1a - Workflow



BSM currently uses two systems to analyze transactions. The first is SAS, one of the most effective and flexible statistical tools available in the marketplace for data mining and analysis. The SAS software is parameterized by BSM's team of specialists in accordance with its market supervision requirements.

The other system BSM uses to supervise BM&FBOVESPA's markets is SMARTS Integrity, which was developed by Nasdaq OMX, is used by regulators, self-regulatory organizations and exchanges in the world's major markets, and was implemented by BM&FBOVESPA and BSM in fourth-quarter 2011.

Implementation of SMARTS Integrity significantly enhanced BSM's capacity to oversee orders and trades using the investigation and

automatic alert generation modules. In 2012 more than 200 analyses were initiated on the basis of alerts generated by SMARTS.

In 2012, BSM issued 96 requests for clarification to participants regarding possible irregularities detected in its market supervision activities.

Analysis of all orders sent to trading systems (rather than just trades) is fundamental in electronic markets, given the growth in high-frequency trading (HFT), which is characterized by a high ratio of orders to completed trades.

Each market segment is analyzed in three dimensions (Figure 2):

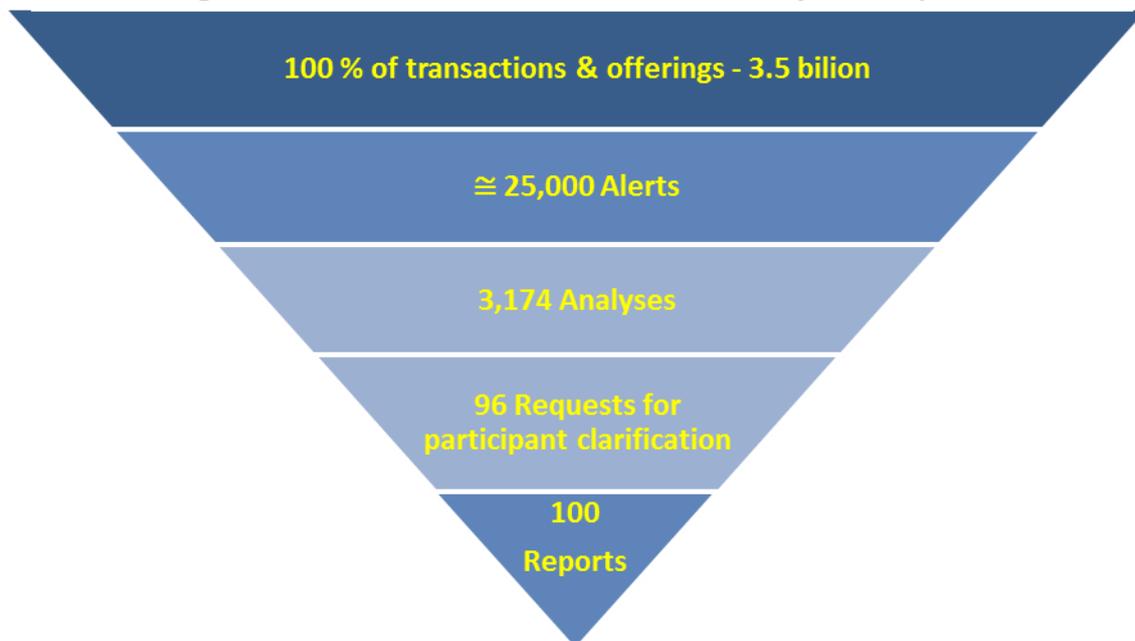
- Asset behavior;
- Market information;
- Investor behavior.

In the case of asset behavior, the analysis focuses on

price and volume fluctuations.

Market information analysis covers published indices, merger and acquisition disclosure, financial statements and earnings releases, and all material event notices without excep-

**Figure 1b - Securities transactions, Alerts, Analyses e Reports**



SMARTS was initially implemented for the supervision of orders and trades in the Bovespa segment. Its implementation for the supervision of the BM&F segment is scheduled for first-quarter 2013.

BSM's technical staff analyze the alerts and reports issued by its market supervision systems and if necessary can request clarification from the participants involved in suspect transactions. If evidence of irregularities is found, a Market Oversight Report is opened to deal with the case.

tion. In the case of investor behavior, the analysis covers each investor's trading history and results over time.

BSM's integrated analysis of these three dimensions enables it to identify any atypical aspects of fluctuations in asset price and volume or disclosure by listed companies, as well as atypical behavior by investors or trading outside their profiles.

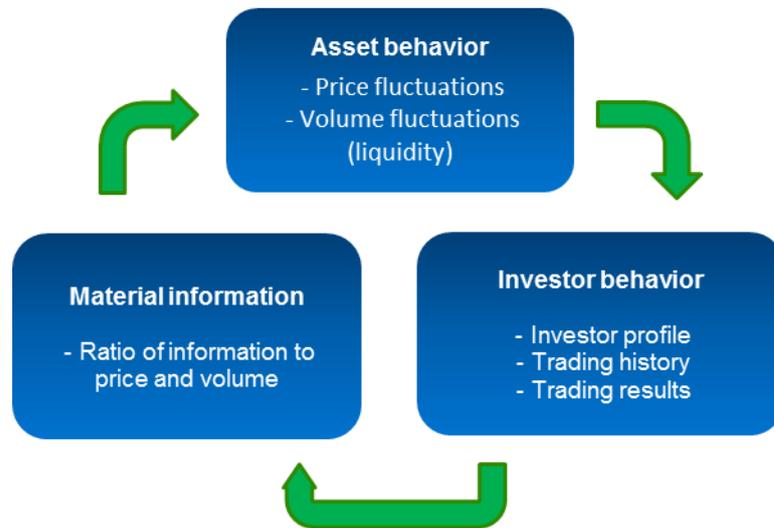
Constant upgrading of the filters and parameters used by the market supervision systems is vitally important in today's increasingly dynam-

ic markets. This work is also important as a means of assuring enhanced efficiency on the part of the technical staff responsible for analyzing the alerts generated by the systems.

Chart 1 shows the increase in the assertiveness of BSM's analysis due to upgrading of the software filters and parameters used to analyze transactions, resulting in the detection of a larger number of irregularities based on the analysis of a far smaller number of alerts.

The efficiency and assertiveness of BSM's market supervision have clearly increased. In 2010 less than 1% of the analyses effected by BSM resulted in the detection of evidence of irregularities. In 2011 the proportion exceeded

**Figure 2 - Analysis flow chart**



2% and in 2012 it rose to 3.15%.

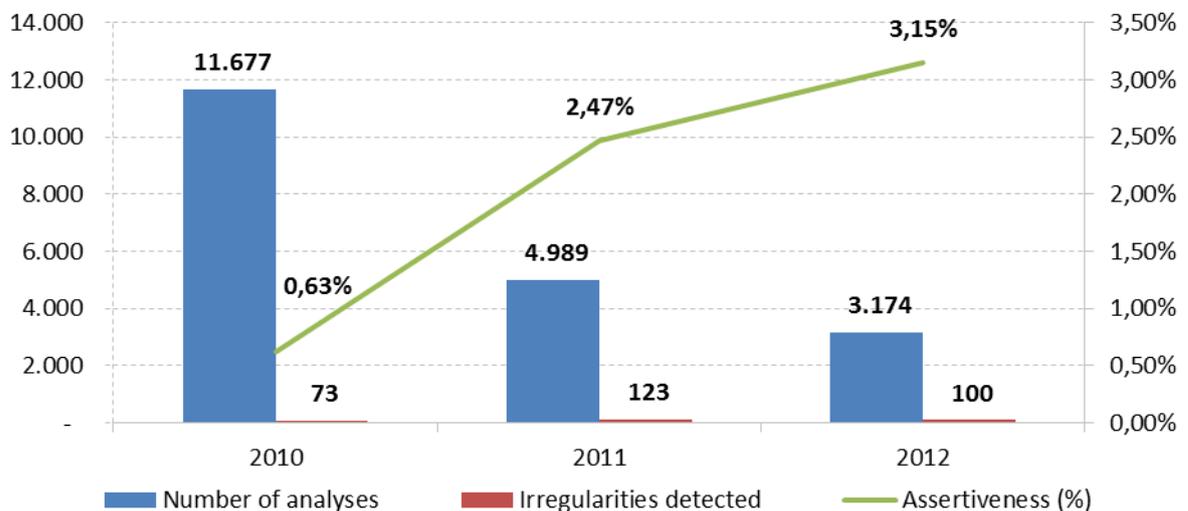
In 2012, besides enhancing the procedures and methodologies used to supervise trading, BSM focused on completing Market Oversight Reports more

quickly so that enforcement does not lag too far behind any irregularities committed.

The results in terms of increased efficiency can be seen from both the reduction in the backlog of Market Oversight Reports in progress and from the shorter time taken to complete Reports initiated in 2012.

**Chart 1**

**Assertiveness of BSM's Investigation of Market Manipulation**



**Market Oversight Reports – 2011  
 Backlog**

One of the market supervision targets set for 2012 was completion of the backlog of Market Oversight Reports still in progress at December 31, 2011.

At the start of 2012, 210 reports were awaiting analysis and completion. By February 2013, 99% of these reports had been completed (Chart 2).

Seventy-four per cent of the 207 reports completed were dismissed and 26% were forwarded for the possible adoption of enforcement measures.

**Market Oversight Reports – 2012**

Seventy-six Market Oversight Reports were initiated in 2012. In line with the goal of enhancing BSM's efficiency and reducing the lag between violation and enforcement to enhance effectiveness, it was established that Market Oversight Reports must be completed within 75 days. Time to completion for the 58 reports completed in 2012 averaged 78 days (Chart 3).

Sixty-nine per cent of the 58 reports completed led to dismissal of the evidence found, while enforcement measures were adopted for 31%.

Chart 4 shows the types of probable violation or request that generated reports in 2012.

Almost 50% of the violations detected relate to price behavior or the liquidity of assets and derivatives. In general, these are classified as forms of market manipulation or improper use of insider information.

Chart 2

**Market Oversight Reports - 2011 Backlog**

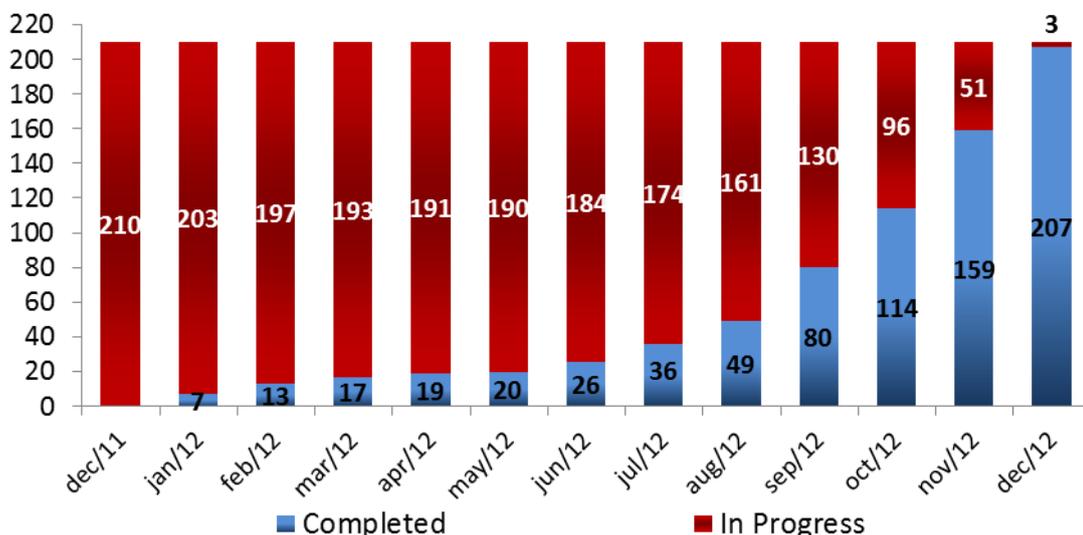
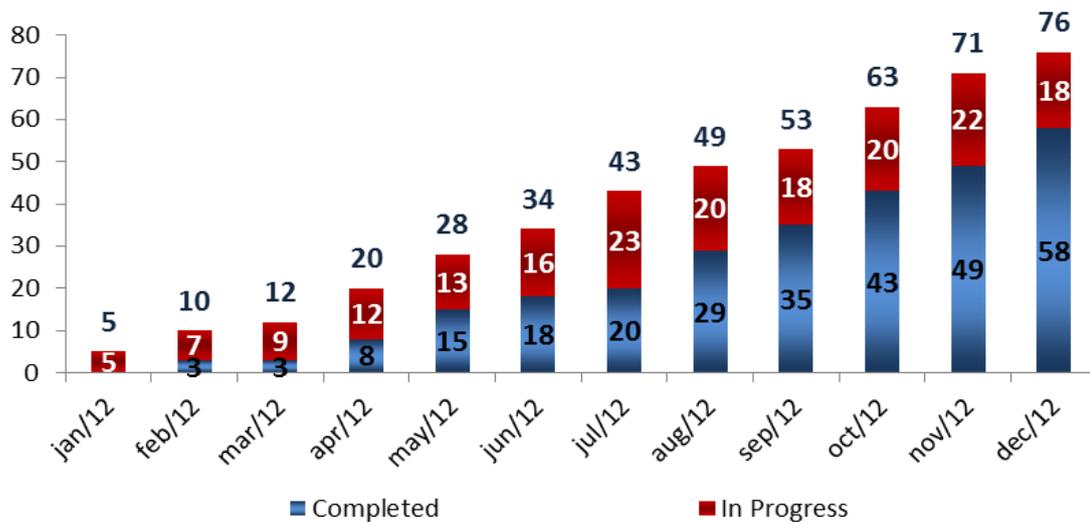


Chart 3

**Market Oversight Reports - 2012**



**Supervision of trading in securities issued by BM&FBOVESPA**

BSM is also responsible for analyzing transactions involving securities issued by BM&FBOVESPA, pursuant to CVM Instruction 461/2007, article 58, to ensure that the general rules for issuers are observed by BM&FBOVESPA as an issuer of shares in the company for trading in the Bovespa segment.

**Interaction with CVM**

BSM's activities are closely followed by CVM, which is immediately notified when any evidence of a serious violation is detected.

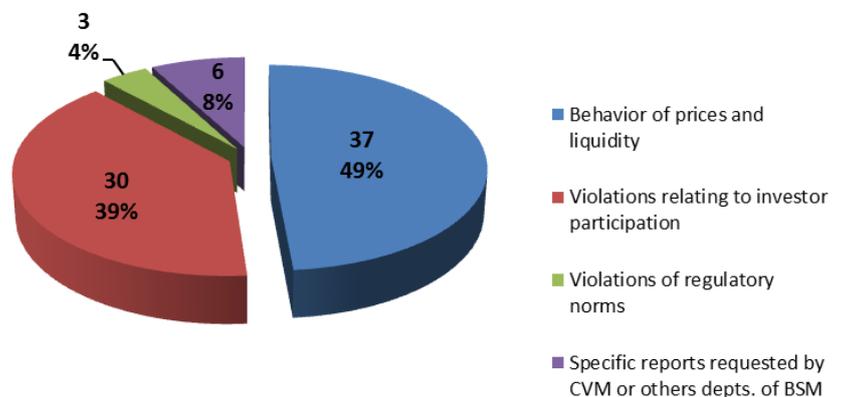
Table 1 summarizes the results of market supervision activities performed in 2012 and compares them with the previous two years.

With regard to analysis of investor participation, it is important to note that any evidence of money laundering is immediately reported to the Financial Activities Control Council (COAF).<sup>3</sup>

From time to time BSM also produces reports for CVM on evidence of irregularities and any deviations observed in transactions (Table 2).

Chart 4

**Market Oversight Reports Generated in 2012**



<sup>3</sup> COAF is a Financial Ministry agency whose remit is to receive and analyze complaints of suspected illicit activity associated with money laundering.

**Table 1**  
**Market Supervision in Numbers**

Type of analysis	2010		2011		2012	
	Analyses	Reports	Analyses	Reports	Analyses	Reports
Behavior of asset and derivative prices and liquidity (artificial demand, supply or pricing, price manipulation, fraudulent trading, unfair practices etc.)	5,181	32	2,166	71	2,296	60 <sup>(2)</sup>
Participation by investors (fraudulent trading, money laundering, irregularly exercising activities in the securities market etc.)	211	25	408	37	530	30
Observance of BM&FBOVESPA's operating rules and CVM Instructions 168, 358 etc. <sup>(1)</sup>	5,854	3	2,143	1	27	3
Requests from CVM and other authorized bodies or departments of BSM	431	13	272	14	321	7 <sup>(2)</sup>
<b>Total</b>	<b>11,677</b>	<b>73</b>	<b>4,989</b>	<b>123</b>	<b>3,174</b>	<b>100</b>
<b>Percentual de assertividade da análise (Relatórios / Análise)</b>		<b>0.6%</b>		<b>2.5%</b>		<b>3.2%</b>

<sup>(1)</sup> The number of analyses relating to compliance with CVM Instructions 168, 286 and 358 fell in 2011 because this activity migrated to BM&FBOVESPA's Operations Department, leaving BSM with the responsibility of enforcing compliance by the Exchange.

<sup>(2)</sup> Includes reports requested directly by CVM.

**Table 2**

2012		
Reports commissioned by CVM and others		
Analyses Completed		
CVM	Other *	Total
263	58	321

\* BM&FBOVESPA and internal areas of BSM

## AUDITING OF PARTICIPANTS

BSM is responsible for direct supervision of participants in the markets managed by BM&FBOVESPA. It discharges this duty by auditing institutions to examine compliance with the applicable laws and regulations.

Direct audits are performed by a team of auditors on the institution's premises (on-site audits). Alternatively, audits can be performed offsite when the physical presence of auditors is unnecessary: in these cases auditing is remote and continuous, using data mined from various databases (indirect audits).

Table 3 outlines the main types of audit performed by BSM, followed by subsections de-

tailoring the scope and methodology of each type and the main results achieved in 2012.

### Operational Audits

These audits appraise participants' infrastructure and processes, including such items as technology infrastructure, information security, business continuity plans and online trading platforms ("home broker" software), as well as operating procedures for customer registration, order reception and registration, collateral management, settlement, custody, and risk management. Investment club administration and management are also verified, as are autonomous investment agents linked to participants.

**Table 3**

Operational audits	<ul style="list-style-type: none"> <li>• Evaluation of an institution's processes and infrastructure (including IT)</li> <li>• Includes auditing of autonomous investment agents</li> </ul>
Pre-operational audits	<ul style="list-style-type: none"> <li>• Verification of compliance with operational, technological and financial requirements for admission of new participants by BM&amp;FBOVESPA</li> </ul>
Indirect audits	<ul style="list-style-type: none"> <li>• Remote auditing using statistical and computational resources to analyze data mined from databases compiled by BM&amp;FBOVESPA and CVM, as well as BSM's own database and other relevant databases</li> <li>• Includes verification of compliance with requirements regarding financial situation and net worth, among others, and compliance with eligibility rules by investment clubs</li> </ul>
Direct Market Access (DMA) audits	<ul style="list-style-type: none"> <li>• Verification of pre-trading risk control tools to be used by participants who apply to trade via DMA</li> </ul>
Audits relating to Investor Compensation Mechanism (MRP) proceedings	<ul style="list-style-type: none"> <li>• Audits conducted to clarify technical issues raised by proceedings initiated in response to complaints to MRP</li> </ul>
Other audits (on demand)	<ul style="list-style-type: none"> <li>• Specific audits requested by CVM or other departments of BSM</li> </ul>

It should also be mentioned that given the growing importance of technology in organized securities markets, in 2012 BSM established a specific IT auditing unit with a staff of specialists in testing IT infrastructure, business continuity, information security, and other aspects of IT.

The main stages of an operational audit are shown in the next figure.

the appropriate action if the findings show performance in line with expectations, or BSM may take measures ranging from a letter recommending action to address any problems detected to the initiation of administrative proceedings if the audit has detected a serious lack of control by the participant.

**Backlog (2010-2011 Programs)**

All audit reports pending at December 31, 2011, were completed in 2012.

**Figure 3 - Stages of Operational Audits**



Field work lasts six weeks on average. During this stage, the auditors focus on understanding and testing the institution's processes, and evaluating the sufficiency of existing controls. Activities before and after this stage are also vitally important.

Activities carried out before field work consist basically of planning the audit, analyzing the institution's profile, and reviewing information from other sources where helpful to guide the audit. An opening meeting is also held to explain the audit's scope and methodology, introduce the BSM team who will participate, and answer any initial questions from the participant.

Later stages are dedicated to writing and revising the audit report and presenting it to the participant. Finally, depending on the findings of the audit the report may be filed, which is

90 days (12 week)

In December 2011, 32 operational audit reports were pending – 25 from the 2010 program and seven from the 2011 program. These reports were taken into consideration in evaluating the results of the audits performed in 2012.

**2012 Program**

All field work required by the 2012 Operational Audit Program was completed by December. This Program involved inspection of 78 active participants. The Operational Audit Program was concluded in February 2013.

All audits were completed within the required 90-day time limit.

The average time taken to complete audits was 84 days between the start of on-site field work and issuance of the final report.

It should be noted that autonomous investment agents are now inspected within the scope of operational audits. These inspections verify autonomous investment agents' physical structure, technology and procedures, among other items. The number of such agents audited in 2012 totaled 1,032, for an increase of over 700% compared with 2011. Of these, 772 were internal, i.e. agents physically located on participants' premises, and 260 were external, i.e. on different sites from those of participants.

### ***Indirect audits***

In 2012 BSM began making intensive use of an auditing methodology based on data obtained from a number of different sources and treated by specific data mining and treatment software tools, chiefly SAS.

This remote auditing methodology enables verification to be performed without the need for travel by a team of auditors.

Another advantage of methodology is the possibility of continuously monitoring 100% of a participant's transactions, as well as those of its customers.

The following priorities were established for continuous monitoring in 2012:

- ✓ Compliance with the minimum requirements regarding financial situation and net worth established by BM&FBOVESPA's rules;
- ✓ Related-party transactions and own-account transactions by the institution (to detect evidence of proprietary trad-

ing ahead of customers' executable orders);

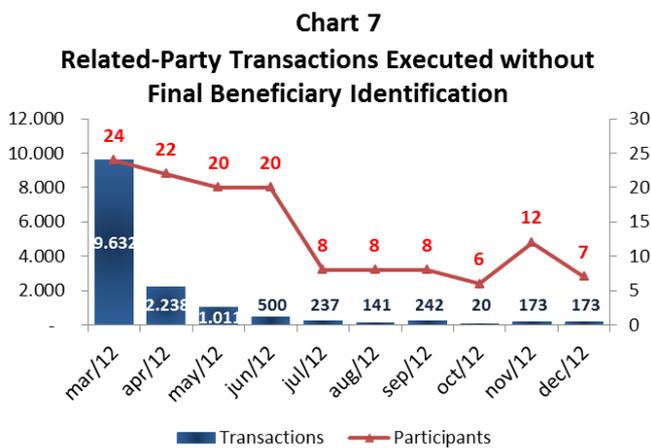
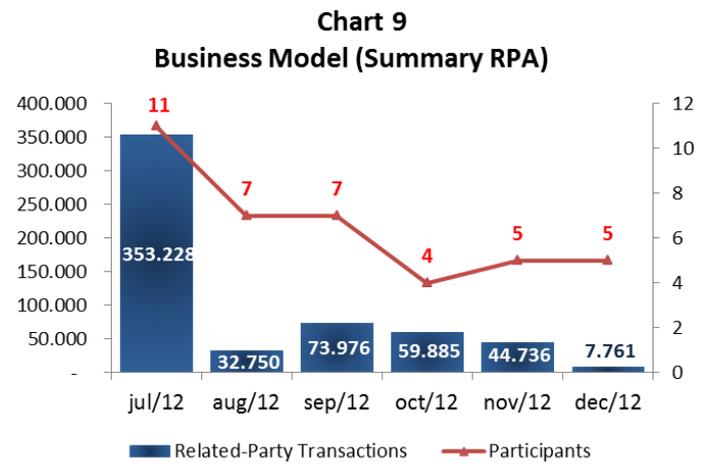
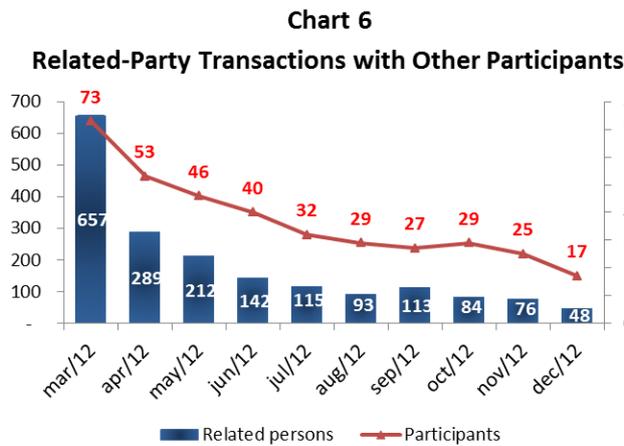
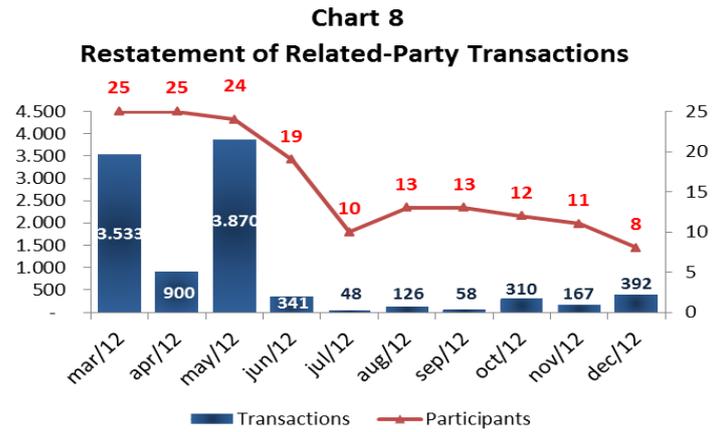
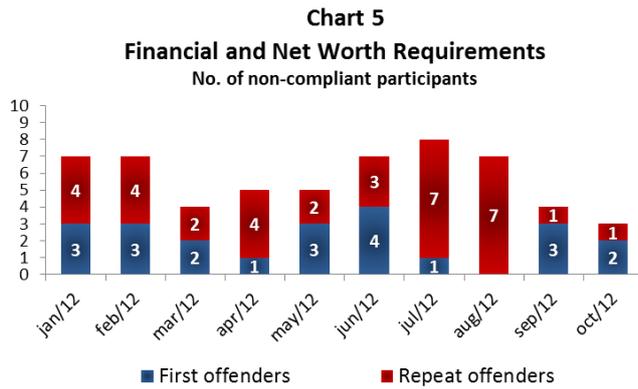
- ✓ Intermediaries' business models (assessing participant's activities against their own rules and parameters);
- ✓ Order control and recording;
- ✓ Analysis of investors' current accounts with participants.

It should be noted that all the above analyses were performed for 100% of participants and for all accounts, orders and executed trades.

Participant institutions or individuals found non-compliant were notified by BSM, which requested an explanation or ordered them to cease and desist from the practice deemed irregular. If they failed to perform better in subsequent testing, they were summoned to attend a face-to-face meeting where they were asked to justify their behavior and warned that penalties would be incurred in the event of further infringement.

Participant indicators improved significantly following the implementation of this methodology, as can be seen from Charts 5, 6, 7, 8 and 9, demonstrating that the market delivers the expected improvements when called upon to improve and given due guidance.

A quantidade de operações irregulares frente o total de operações realizadas por mês é mínima, sendo que o percentual de operações irregulares não chega a 0,5% do total de operações por mês.



**Other Audits**

Besides operational and pre-operational audits, indirect audits, audits of risk control tools for trading via Direct Market Access (DMA) and audits to support proceedings initiated by complaints to the Investor Compensation Mechanism (MRP), BSM also performs audits at the request of CVM and other departments of BSM.

Table 4 presents a summary of the activities of BSM's Participant Auditing Unit in 2012.

**Table 4**

Type of Audit	No.
Operational	78
Autonomous Investment Agents	1032 (*)
Pre Operational	47
Other	66

\* 772 Internal e 260 External

**Figure 4**

**Order control and recording**

In July 2012 we audited 78 participants and sent letters to 77 participants requesting 2,466 orders. As a result of the analysis, 38 participants received audit reports pointing out possible irregularities. The behavior of these participants will be assessed in first-quarter 2013, and compared with the 2012 findings.

**Figure 5**

**Current accounts**

In June 2012 we audited the current accounts of 78 participants and detected suspect activities in 75. The behavior of these participants will be assessed in first-quarter 2013, and compared with the 2012 findings.

### **Notices to COAF**

As in the case of suspect transactions identified in the course of market surveillance, the Financial Activities Control Council (COAF) is promptly notified whenever BSM finds evidence of money laundering in the course of audits. BSM's supervision and auditing activities generated 113 notices to COAF in 2012.

**Table 5**  
**Notices to COAF**

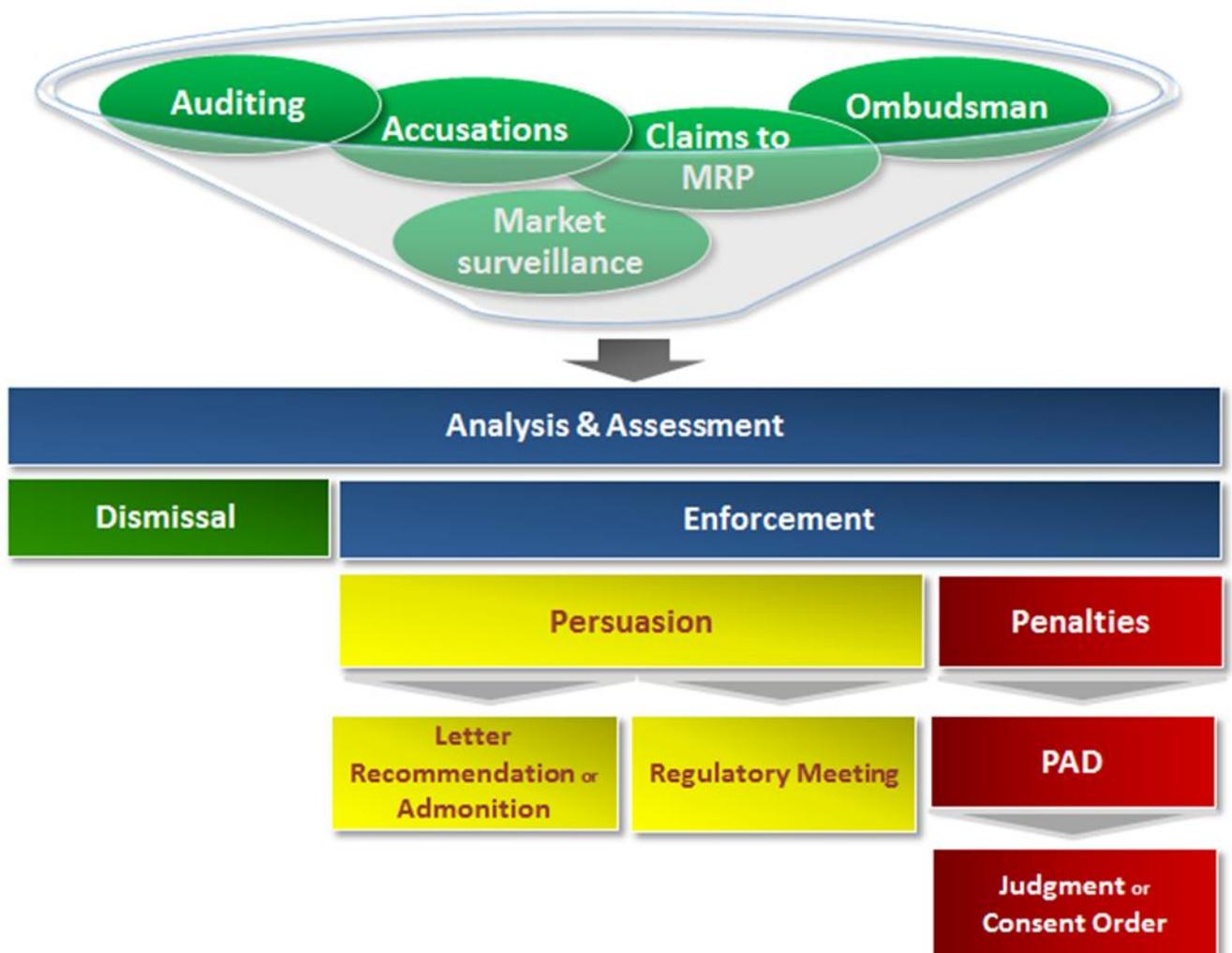
<b>Originating BSM department</b>	<b>2011</b>	<b>2012</b>
Market Oversight	17	16
Participant auditing	43	91
Legal	2	6
<b>Total</b>	<b>62</b>	<b>113</b>

## ENFORCEMENT

Effective market supervision requires appropriate treatment of the problems and infringements identified, ranging from educational measures and persuasion to the application of penalties, as appropriate, so that offenders can be given guidance or penalized and the problems resolved. This disciplinary activity, known as enforcement, aims to improve the standard of participants' conduct and their internal controls, and to prevent repetition of the violations concerned.

The evidence of infringements and violations detected by BSM's supervision and auditing activities is analyzed and may lead to enforcement actions, which range from recommendations that the institution implement improvements to its processes and controls to the initiation of disciplinary administrative proceedings (PADs), potentially resulting in penalties for the participant(s) concerned.

Figure 6 - Enforcement flow



### ***Letters of Recommendation and Letters of Admonition***

When evidence that something is wrong or irregular is detected during a participant audit, the application of penalties may not initially be necessary. This is the case, for example, when an operational audit finds one or two non-conformities that do not present a high level of risk. Under these circumstances BSM may send a Letter of Recommendation indicating the need for improvements to the institution's internal controls, for example. On such occasions the participant is required to submit an action plan indicating the measures it will take to avoid a repetition of the non-conformities identified and the timeframe for implementation of the improvements.

Letters of Admonition are another enforcement instrument available to BSM. These warn participants that BSM has detected irregular practices of some kind, requesting an explanation for the behavior identified and/or ordering the participant to cease and desist from the practice deemed irregular on pain of disciplinary administrative proceedings.

In 2012, BSM sent 872 Letters of Recommendation and 19 Letters of Admonition (14 to BM&FBOVESPA participants and five to autonomous investment agents).

### ***Disciplinary administrative proceedings (PAD)***

Infringements of laws, rules and regulations by participants in BM&FBOVESPA's markets may be judged in administrative proceedings held by BSM.

Participants subject to investigation and possible penalization in such proceedings include both financial institutions and their representatives or agents (natural persons).

Administrative proceedings are initiated in order to investigate alleged irregularities and may result in the following penalties pursuant to BSM's by laws:

- ✓ A warning;
- ✓ A fine;
- ✓ Suspension lasting up to 90 days;
- ✓ Temporary disqualification lasting up to ten years; e
- ✓ Other penalties provided for in BM&FBOVESPA's regulatory and operating rules.

To guarantee the validity of their decisions, BSM's administrative proceedings observe universally accepted procedural principles, particularly the right of defense and the right to an adversarial hearing, as well as the principles of legality, fairness, proportionality, and the primacy of the public interest.

Administrative proceedings may also conclude with a consent order. This instrument, which is used by regulators and self-regulatory organizations including CVM, typically requires a

participant to undertake to implement measures designed to prevent any repetition of the offense or offenses that gave rise to the proceedings. Payment of monetary compensation may also be required.

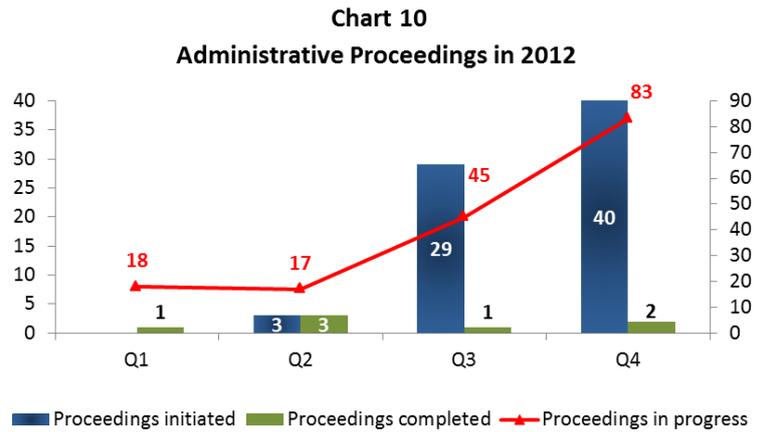
When a consent order is signed, the administrative proceeding is suspended until the obligations assumed are discharged, in which case the proceeding is closed. If the undertakings specified in the consent order are not completely discharged, the administrative proceeding resumes.

Consent orders accord with the principle of procedural efficiency by saving effort and cost for BSM, while also achieving the goal of halting or curtailing alleged irregular practices and enabling administrative proceedings to be closed in an efficient and timely manner.

**Administrative Proceedings – 2012**

Chart 10 presents the numbers of administrative proceedings initiated, closed and still in progress at BSM during the course of 2012. BSM began the year with 18 proceedings in progress, initiated 72 new proceedings, and closed seven during 2012. At year-end, 83 proceedings were in progress, involving 21 participants and 136 defendants.

The rise in the number of administrative proceedings initiated in the second half was due mainly to the treatment of irregularities detected by Market Oversight Reports and MRP cases.



Thirty-nine of the administrative proceedings initiated arose from investigations conducted as part of BSM’s supervision and auditing activities, while 33 arose from irregularities identified in proceedings relating to MRP claims,<sup>4</sup> as shown in Chart 11.

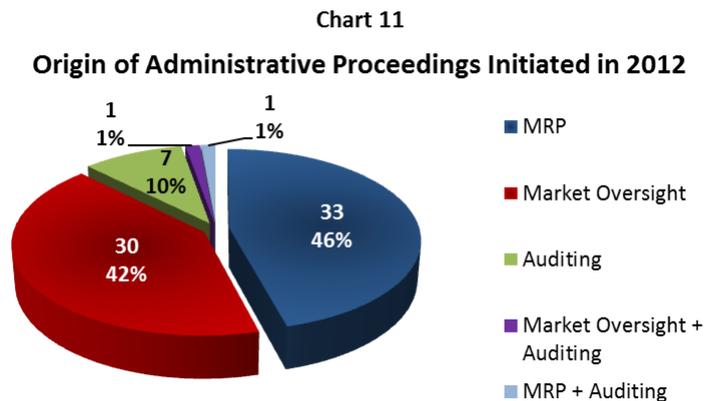
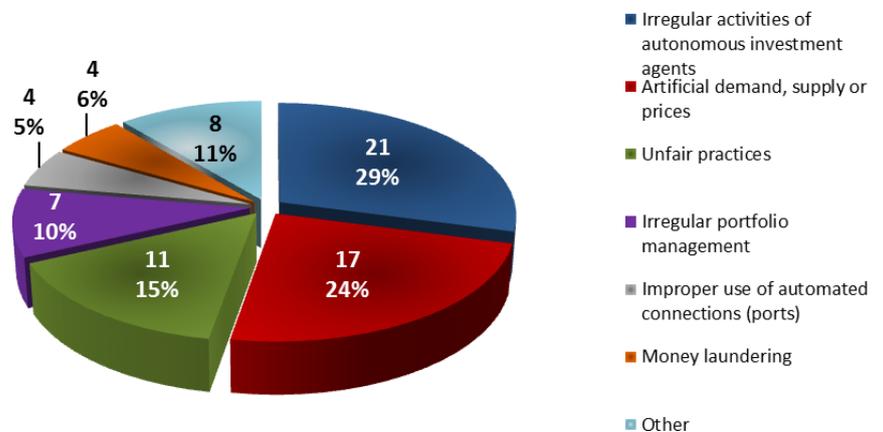


Chart 12 presents the main problems that gave rise to administrative proceedings initiated in 2012.

<sup>4</sup> Administrative proceedings may be initiated to examine irregularities identified during the investigation phase of MRP cases, regardless of the verdict reached in the latter (i.e. whether or not the investor’s claim is accepted).

Table 6 presents the results of the administrative proceedings completed in the period 2010-2012. It should be noted that an administrative proceeding may have more than one defendant (e.g. a participant and the responsible officer or a participant and a trader). The table shows the number of administrative proceedings closed, the number of defendants involved and, for all defendants in aggregate, the number of convictions, acquittals and consent orders. In the case of convictions, the penalties are also listed.

**Chart 12**  
**Substance of Administrative Proceedings Initiated in 2012**



In 2012, seven proceedings were closed. They involved 15 defendants (six brokerage firms, four responsible officers, three traders, and two autonomous investment agents). Seven of the 15 defendants signed consent orders and discharged all their obligations under those orders. Two were acquitted and six were convicted, with the penalties shown in Table 6.

**Table 6**  
**Outcomes of Completed Administrative Proceedings**

Year	No. PADs	No. Defendants	Consent Orders	Decisions		Penalties				Total <sup>A</sup> R\$ 000
				Conviction	Acquittal	Warning	Fine	Suspension	Disqualification	
2010	7	9	7	2	0	0	1	0	1	1,028
2011	18	33	16	14	3	7	5	0	2	3,591
2012	7	15	7	6	2	4	1	1	0	900

(A) Sum of fines applied and monetary compensation paid pursuant to consent orders. In both cases, "Total" refers to the total amount paid by defendants in proceedings completed during the year in question.

It is important to note that all decisions in administrative proceedings are public and available on BSM's website (in Portuguese).<sup>5</sup>

<sup>5</sup> [www.bsm-autorregulacao.com.br](http://www.bsm-autorregulacao.com.br) (Processos Administrativos > Processos Adm. Concluidos).

## **INVESTOR COMPENSATION MECHANISM (MRP)**

CVM Instruction 461/2007 requires all organized markets to have an investor compensation mechanism.

BSM manages BM&FBOVESPA's Investor Compensation Mechanism (MRP) and is therefore responsible for analyzing and ruling on compensation claims filed by investors.<sup>6</sup>

In 2012 BSM faced two challenges. The first consisted of completing all MRP proceedings in progress at end-2011. The second was to process any new MRP claims filed during the year as quickly as possible without jeopardizing the quality of its assessment in each case.

## **Investor Compensation Mechanism – 2011 Backlog**

In October 2011 the backlog of ongoing MRP claims amounted to 117 proceedings.

In May the legal opinions on these cases were completed. In February 2013 there remained only one case awaiting a decision, as well as one case on appeal.

Chart 13 shows the progress of these 117 cases month by month.

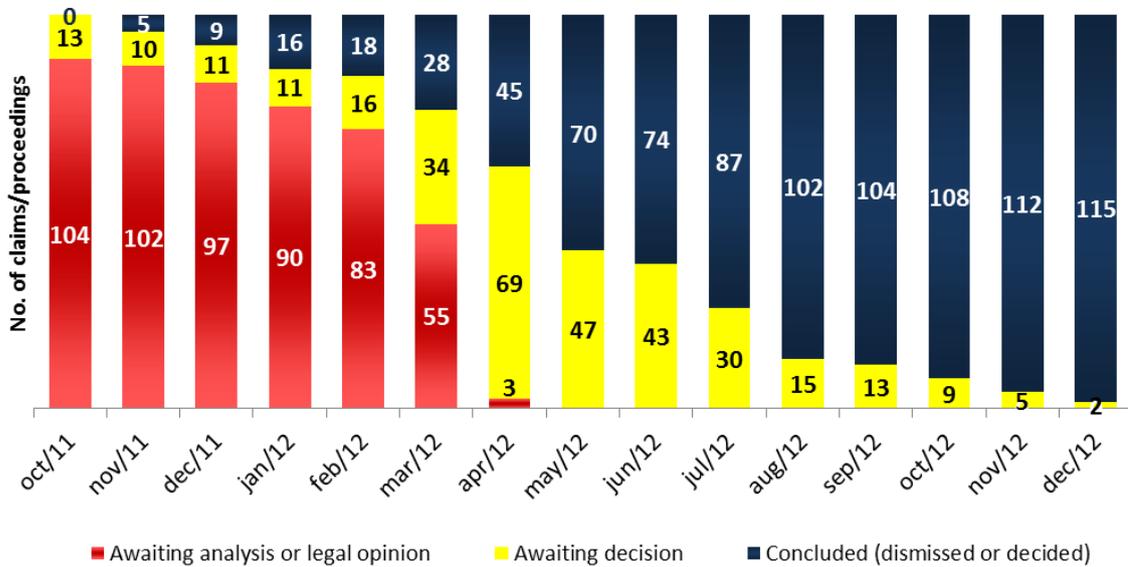
“The managing entity of an exchange shall maintain an investor compensation mechanism for the sole purpose of ensuring that investors can recover losses arising from action or omission by a person authorized to trade, or his officers, employees or representatives, in intermediating transactions on an exchange or in providing custody services, especially in the following cases:

- I. Failure to execute orders accurately or non-execution of orders;
- II. Improper use of funds and securities or other assets, e.g. in financing or securities lending transactions;
- III. Delivery of illegitimate or restricted securities or assets to investors;
- IV. False endorsement of securities or other assets, or illegitimate power of attorney or other documents required for transfer of ownership;
- V. Intervention or out-of-court liquidation by the Central Bank of Brazil;
- VI. Closure of the brokerage firm.”

**(CVM Instruction 461/07, art. 77)**

<sup>6</sup> The status of claims filed and BSM's rulings are available at [www.bsm-autoregulacao.com.br](http://www.bsm-autoregulacao.com.br) (MRP > Status das reclamações e decisões finais).

**Chart 13**  
**MRP - 2011 Backlog**  
 (claims pending in October 2011)



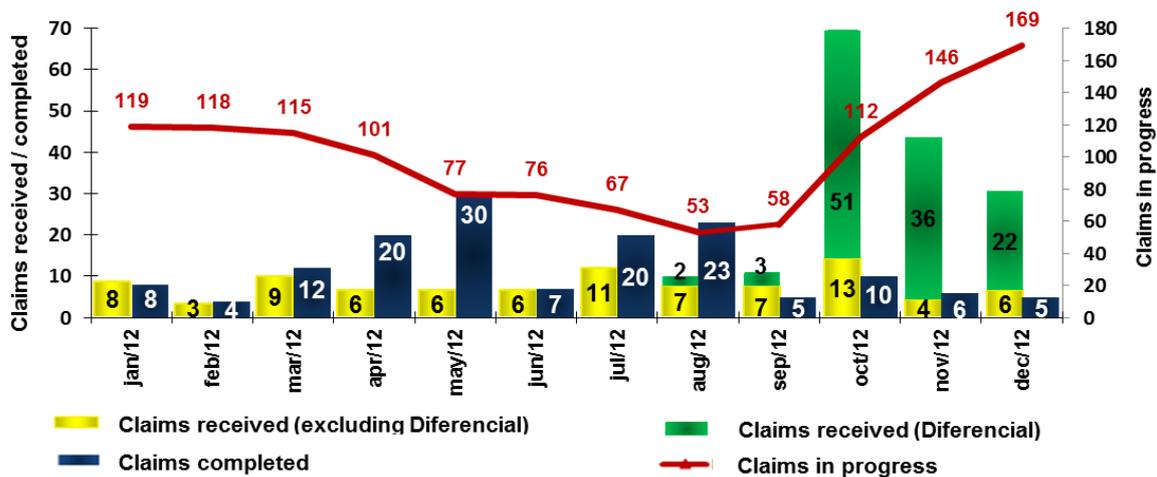
**Investor Compensation Mechanism – 2012**

In the last two years the number of completed MRP proceedings surpassed the number of claims received. This trend continued during the first three quarters of 2012, when BSM received 68 claims and completed 129 proceedings.

In the last quarter, however, the number of claims filed increased very sharply owing to out-of-court liquidation of Diferencial CTVM S.A., ordered by the Central Bank of Brazil on August 9, 2012. Of the 200 MRP claims filed in 2012, 115 or 58% concerned Diferencial.

Thirty-two of the 150 claims and cases completed in 2012 were dismissed for failure to

**Chart 14**  
**MRP - Monthly Evolution**



comply with requirements or untimely filing.<sup>7</sup> Eight were closed because the parties settled or the plaintiff withdrew the claim. Thus 110 cases were judged by the Supervisory Board, with the results shown in Table 8.

The total amount of compensation paid in response to claims accepted in toto or in part was R\$791,200.<sup>8</sup>

Besides the out-of-court liquidation mentioned above, the main problems raised by investors in MRP claims in 2012 related to irregularities committed by autonomous investment agents and portfolio turnover (Chart 15).

It is important to note that violations identified during MRP cases may require the initiation of administrative proceedings against the offender, even where compensation is denied for whatever reason.

**Table 7**

<b>MRP - Claims filed, cases completed and ongoing cases</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Initial caseload</b>	173	160	119
<b>Claims filed</b>	122	54	200
<b>Cases completed</b>	135	95	150
<b>Final caseload</b>	<b>160</b>	<b>119</b>	<b>169</b>

Seventy-four of the 150 MRP cases closed in 2012 entailed enforcement of penalties for violations committed by participants, their employees or agents.

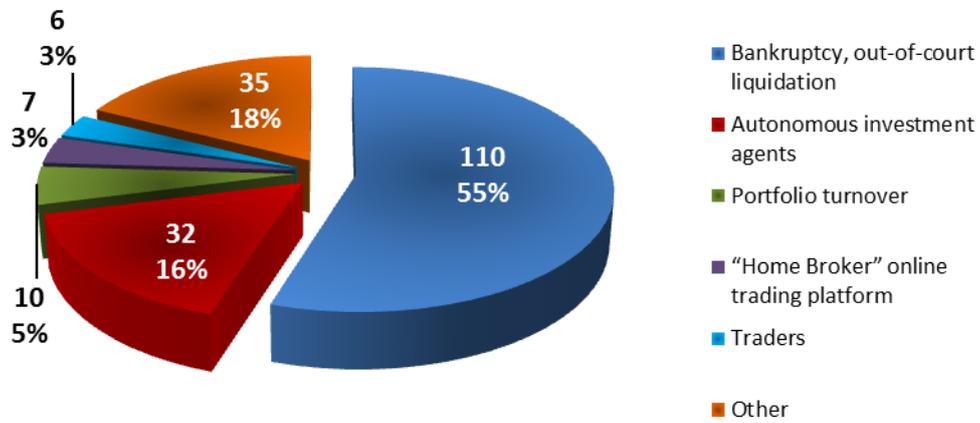
**Table 8**  
**MRP - Cases Processed**

	<b>No.</b>	<b>%</b>
Dismissals	32	21%
Settlements or withdrawals	8	5%
Claims denied	86	57%
Claims accepted in toto or in part	24	16%
<b>Total</b>	<b>150</b>	<b>100%</b>

<sup>7</sup> Pursuant to CVM Instruction 461, an investor has 18 months to file an MRP claim from the date on which the action or omission justifying the claim occurs (article 80). The same CVM Instruction also specifies the circumstances in which compensation must be paid (article 77).

<sup>8</sup> This amount includes both monetary compensation and redress in the form of assets, which are valued at the closing price on the date of the compensation order. It does not include claims accepted in part where the plaintiff appealed to CVM and the appeal had not yet been heard.

**Chart 15**  
**Substance of MRP Claims Received in 2012**



## **EDUCATION AND TRAINING**

BSM staff took part in several training programs in Brazil and abroad in 2012. Seventeen auditors of IT processes attended a course in information security management based on ISO/IEC 27002, for a total of 400 hours of training. Eight auditors completed the Information Security Management Advanced Certificate (ISMAS).

A total of 56 other employees took external courses amounting to over 1,400 hours of training. Currently some 20% of BSM's staff are taking specialization, MBA or master's courses.

Fourteen members of BSM's staff took training programs abroad in 2012, attending such institutions as the London School of Economics (LSE), the US Securities & Exchange Commission (SEC), the US Commodity Futures Trading Commission (CFTC), and the International Organization of Securities Commissions (IOSCO).

As well as sending staff for training abroad, BSM has sought to bring specialists from abroad to teach courses for the entire BSM workforce.

A team from the CFTC taught the Commodity Futures Trading Commission Training on Derivatives Regulation at BSM's headquarters in 2012. The Annual Conference of the Financial Industry Regulatory Authority (FINRA), the leading non-governmental regulator for securities firms in the US, was webcast to BSM's auditorium, with interesting panel sessions on supervision, auditing and enforcement.

Participation in training programs and events at home and abroad also enables BSM's staff to share experiences with other entities. Information is constantly exchanged between BSM and other market institutions and self-regulatory organizations.

Roughly 50% of BSM's workforce have MBAs or master's degrees or have completed specialization courses, while a further 20% are currently studying for one of these qualifications, and 2% are studying for a PhD.

## **INSTITUTIONAL RELATIONS AND INTERNATIONAL ACTIVITIES**

As a normal part of its routine activities, BSM is in constant touch with Brazilian regulators at CVM and the Central Bank, both to discuss enhancements to rules and procedures and to exchange information on surveillance, supervision and enforcement.

BSM also works to build stronger ties with other self-regulatory organizations and entities representing the industry. In 2012 these efforts included meetings with representatives of the National Association of Brokers & Broker-Dealers (Ancord), the Brazilian Federation of Banks (Febraban) and the Association of Capital Markets Investors (Amec).

Interaction with market entities and other self-regulatory organizations also involves participation in outside working groups, such as a working group set up to enhance CVM Instruction 89 on the activities of custodians,

bookkeepers and central securities depositories, where BSM sits alongside the Brazilian Association of Financial & Capital Market Institutions (ANBIMA), BM&FBOVESPA, CETIP and representatives of the asset-servicing and custody industry, and the Working Group for Reformulation of the Intermediation System, in which BSM collaborates with ANCORD, BM&FBOVESPA, CETIP and ANBIMA.

BSM also interacts internationally with IOSCO's Self-Regulatory Organizations Consultative Committee (SROCC).

To reinforce its image as a nationally and internationally recognized self-regulatory organization, and to contribute to global discussions on the basis of Brazil's successful experience in financial and capital market regulation, BSM participates in various forums such as the Council of Securities Regulators of the Americas (COSRA) and the Intermarket Surveillance Group (ISG), as well as IOSCO and SROCC.

**Table 9**  
**Main internacional forums and events in wich BSM participated in 2012**

Entity or institution	Event	Location	Month
Council of Securities Regulators of Americas - COSRA	COSRA Spring Meeting	Argentina	March
Intermarket Surveillance Group – ISG	ISG Spring Meeting	EUA	April
International Organization of Securities Commissions (IOSCO)	IOSCO Annual Conference	China	May
Intermarket Surveillance Group – ISG	ISG Fall Meeting	Italy	October
Council of Securities Regulators of Americas - COSRA	COSRA Fall Meeting	Trinidad & Tobago	October
IOSCO Self Regulation Organization Consultative Committee (SROCC)	SROCC Training Seminar & Mid-Year Meeting	Turkey	November

## **REVIEW OF LEGAL AND REGULATORY FRAMEWORK**

BSM actively participates in discussions of enhancements or additions to the legal and regulatory framework. To this end it is in permanent contact with regulators and other self-regulatory organizations, especially CVM and BM&FBOVESPA.

In 2012 BSM participated in public consultations held by CVM on the following:

- (i) Enhancement of Instruction 301/1999, which deals with the prevention of money laundering and terrorism funding, to adapt Brazilian rules to international recommendations, and Law 12,683/12, which amended Law 9,613/98 (two separate consultations);
- (ii) Issuance of a new instruction requiring all securities market institutions to establish ombudsmen;
- (iii) Amendment of Instruction 359/2002, on the creation, administration and functioning of exchange-traded funds (ETFs), to authorize the offering of bond index ETFs.

In addition, BSM actively participated in a working group set up to enhance CVM Instruction 89 on the provision of stock bookkeeping, securities custody and stock certificate issuance services. The group, which also includes representatives of Anbima, BM&FBOVESPA, Ancord and bookkeeping service providers, sent CVM a suggestion on ways to better define the activities of custodians, bookkeepers and central securities depositories.

It is also worth highlighting BSM's participation, alongside BM&FBOVESPA, Ancord and Anbima, in a working group to reformulate the intermediation segment. The group is carrying out a complete diagnosis of the Brazilian intermediation industry and will propose structural and regulatory improvements designed to remove obstacles to the development of the Brazilian securities markets.

**PRESS**

BSM featured in several trade publications in 2012, owing to an increase in investor interest in the exchange market. In particular, investors want to understand the Brazilian market and how market supervision works in Brazil. So much so that BSM received many questions on this subject during the year.

BSM was mentioned in 82 articles in 2012 – 25 in newspapers, four in magazines and 53 in electronic publications. Articles were published on BSM's new bylaws, the Investor Compensation Mechanism (MRP) and continuous auditing, among other subjects.

**SECRETARIAT AND ADMINISTRATIVE SUPPORT**

BSM has an administrative support unit that assists all the activities described above. Its main tasks in 2012 were as follows:

- Drafting, sending, receiving and controlling correspondence;
- Scheduling and controlling internal and external meetings, travel and other engagements;
- Drafting, checking and sending applications for reimbursements and payments (Supervisory Board, directors, managers, staff);
- Booking air tickets and accommodation (Supervisory Board, directors, managers, staff);
- Infrastructure – support for office supplies, equipment, meeting rooms, subscriptions to publications;
- Documentation – assembling case files, digitizing and filing;
- Personal and telephone service.

**Table 10**  
**Secretariat & Administrative Support**

Activity	Total 2012	Monthly average
Correspondence items sent	3,556	296
Correspondence items received	2,347	196
Meeting with participants	180	15
Processing of receipts (travel expenses, taxis)	9,357	780
Air tickets and hotel bookings	1,746	146
Document digitizing - pages scanned	54,332	4,528

**PUBLIC INFORMATION SERVICE (SAP)**

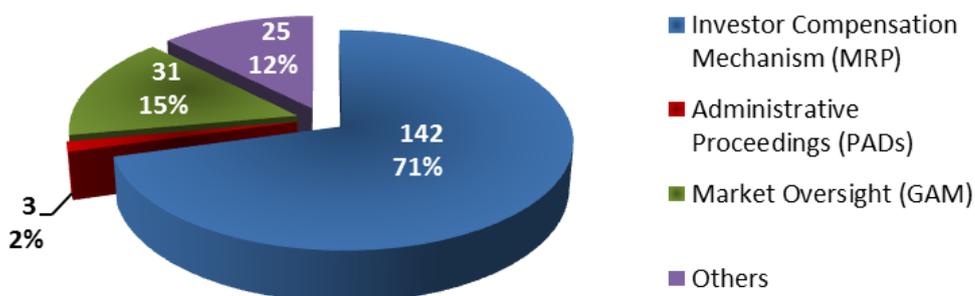
BSM's Public Information Service receives opinions, criticisms and suggestions on the activities of BM&FBOVESPA and its participants as well as BSM itself. In 2012 it received 201 comments or requests for information on the topics shown in Chart 16.

Most of the requests for information consisted of queries from investors who wanted to know the status of their MRP claims.

In the case of inquiries regarding administrative proceedings (PADs), investors sought information on proceedings involving participants.

The market oversight category refers mostly to complaints from investors about market manipulation, which were sent to the units of BSM responsible for processing such complaints for analysis and the appropriate measures.

**Chart 16**  
**Public Information Service**



### **ACKNOWLEDGMENTS**

Management wishes to express its thanks to employees, the Supervisory Board, BM&FBOVESPA S.A., market participants and the regulatory agencies for the results achieved in 2012, which helped strengthen BSM's position as a nationally and internationally recognized self-regulatory organization.

*São Paulo, March 28, 2013*