

ACTIVITIES REPORT 2013



MANDATE

- ✓ Market surveillance to identify any abnormal trading conditions or behavior capable of putting at risk the regular functioning, transparency and credibility of BM&FBOVESPA's markets
- ✓ Inspection and auditing of BM&FBOVESPA's participants to verify compliance with the applicable laws and regulations
- ✓ Supervision and inspection of BM&FBOVESPA's oversight of the obligations of securities issuers
- ✓ Monitoring of trading in the securities issued by BM&FBOVESPA
- ✓ Supervision and inspection of the market organization and oversight activities performed by BM&FBOVESPA
- ✓ Initiating, conducting and compiling evidence for disciplinary administrative proceedings to investigate alleged infringements of the rules and regulations BSM is charged with enforcing
- ✓ Administering the Investor Compensation Mechanism (MRP)

INTRODUCTION

The capital markets have been in the spotlight ever since the 2008 financial crisis. Many of the problems faced by both financial markets and the real economy originated in the capital markets. Governments and regulators of the capital markets, whether national or supranational, soon realized that besides regulating and supervising the conduct of market participants to protect investors and assure market transparency and integrity, it was also vitally important to tighten up supervision and surveillance to mitigate systemic risk.

In recent years, international bodies such as the G20,¹ FSB,² BIS³ and IOSCO⁴ have issued recommendations on the regulation and supervision of capital markets.

In Brazil a number of enhancements to the regulatory framework are worth mentioning. They include the issuance of Normative Instructions by CVM, Brazil's securities commission, to regulate the activities of central securities depositories (CSDs), and of securities custodians and registrars, as well as an Instruction dealing specifically with

securities registration activities. These enhancements of the regulatory framework assure greater legal certainty with regard to the existence of the securities and financial assets publicly offered or traded in organized markets

BM&FBOVESPA Supervisão de Mercados (BSM) launched several initiatives during the course of 2013 to continue strengthening and upgrading the instruments of securities market regulation and self-regulation.

With regard to oversight of market participants, it is worth mentioning the implementation of a new methodology for classifying the results of operational audits. The new methodology, aligned with the risk-based approach to supervision increasingly adopted at home and abroad, is designed to create incentives for participants to enhance their procedures and internal controls. According to the new methodology, auditing of the highest-scoring participants can be waived in the following year. Annual audits were waived for 12 participants in 2013 in light of the results obtained in 2012.

With regard to supervision of trading on the markets managed by BM&FBOVESPA, BSM organized and took part in several forums on the subject of market supervision and surveillance during the year. The discussions held on these occasions evidenced its position in the forefront of trading oversight, not least in the effective use of the tools required to supervise electronic markets with a growing presence of high-frequency traders (HFTs).

¹ G20 stands for "Group of Twenty", an international forum for the finance ministers and central bank governors of the world's top 19 economies plus the European Union.

² The FSB (Financial Stability Board) is an international body that promotes global financial stability by coordinating the work of regulatory authorities and the development of regulatory, supervisory and other policies for the financial sector.

³ BIS: Bank for International Settlements.

⁴ IOSCO: International Organization of Securities Commissions.

In order for BSM's continuous supervision and inspection of participants and surveillance of BM&FBOVESPA's markets to be effective, it is vital to include educational and/or punitive action in the measures taken to address any infringements detected. This enforcement and disciplinary activity aims to raise the standards of participants' conduct, enhance their internal controls, and curb any repetition of infringements. In 2013 BSM continued to endeavor to initiate enforcement actions as quickly as possible after the detection of infringements.

The main results of BSM's activities in carrying out its mandate in 2013 are described in the following pages.

AUDITING OF PARTICIPANTS

BSM is responsible for supervision of BM&FBOVESPA's participants. 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). Audits can also be performed offsite to supplement direct audits, remotely analyzing data mined from various databases using statistical tools and computational resources (indirect audits).

Table 1 details the number of audits performed in 2013.

BSM's auditing activities are summarized below by type of audit, scope and methodology.

Pre-Operational Audits

To be admitted by BM&FBOVESPA as a participant in a given category and hence have access to its markets, an institution must meet a number of operational, technological and financial requirements.

Compliance with these requirements is verified by BSM in pre-operational audits. Participants may undergo more than one pre-operational audit if they request access in different categories.

As shown in **Table 1**, 15 pre-operational audits were performed in 2013.

Table 1
Audits performed in 2013

Type of audit	No.
Pre-operational	15
Operational – Trading Participants (brokerage houses and broker-dealers)	62 (a)
Operational – Self-Employed Investment Agents	910
Operational – Registration Participants	5
Indirect (based on indicators)	-
DMA (Direct Market Access)	44
BM&FBOVESPA (oversight of issuers' fulfillment of obligations)	1
Investor Compensation Mechanism (MRP)	215
Other (specific audits)	8

(a) Out of 78 market participants, 12 were given waivers and four ceased being Direct Trading Participants.

Operational Audits

Operational audits appraise participants' infrastructure and processes, including such items as technology infrastructure, information security, and business continuity plans, as well as procedures for customer registration, order reception, registration and execution, collateral management, settlement, custody, and risk management. Investment club administration and management are also verified, as are self-employed investment agents linked to participants.

The main stages of an operational audit are shown in **Figure 1**.

Field work lasts six weeks on average. During this stage, the auditors focus on understanding and testing the institution's processes, identifying risks, and applying audit tests to evaluate the sufficiency of existing controls to mitigate the risks identified.

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, answer any initial questions and request initial

Figure 1
Stages of an audit



Programming / Field audit / Review / Audit report / Action

information from the participant.

Later stages are dedicated to writing and reviewing the audit report, and presenting it to the participant.

BSM's Operational Audit Program is annual but does not overlap with the calendar year. The 2013 Program began in February 2013 and was completed in February 2014.

The Program covers 100% of BM&FBOVESPA's trading participants.

In 2013 BSM adopted a new methodology for classifying the results of operational audits, with the aim of creating incentives for participants to enhance their procedures and internal controls.⁵ According to the new methodology, auditing of the highest-scoring participants can be waived in the following year.

The 2013 Annual Operation Audit Program already offered this possibility of a waiver. Indeed, annual audits were waived for 12 participants in light of the results obtained in 2012.

The other 62 active participants were subjected to operational audits. Field work in all these institutions was completed by January 10, 2014, and the audit reports were issued by February 26, 2014, within the 90-day target.

Self-employed investment agents were supervised in 2013 as part of the scope of operational audits. Inspections are designed to verify agents' physical and technological structures, as well as their procedures. The number of self-employed agents audited in 2013 totaled 910.

Operational Auditing of Registration Participants

In addition to managing exchange markets on which securities, commodities and derivatives

⁵ The complete methodology for classification of the results of operational audits was published in External Communication 002/2013-DP, available from BM&FBOVESPA's website (Rules / Notifications for Market Participants).

are traded, BM&FBOVESPA also manages an organized over-the-counter (OTC) market, an environment in which assets, derivatives and transactions are registered for the purposes of disclosure to the authorities.

In 2013 BSM audited five participants responsible for more than 90% of the registrations effected in BM&FBOVESPA's environment: three institutions responsible for registration of Real Estate Notes (CCIs), and two responsible for registration of agribusiness financial instruments.

Indirect auditing

Since 2012 BSM has intensified its remote auditing activity by combining information obtained from a range of sources and treated with specific treatment and data mining software. This indirect auditing activity, considered a complement to direct audits, assesses participants' compliance with rules by examining audit exceptions based on an analysis of the entire universe instead of a sample.

Continuous audits covered the following items in 2013:

- ✓ 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
- ✓ Analysis of investors' and participants' proprietary current accounts

- ✓ Portfolio turnover by final investor
- ✓ Verification of compliance by participants with their own operational rules and parameters
- ✓ Certification of professionals

Non-compliant participants and individuals were notified by BSM, which sent 701 letters requesting explanations or ordering cessation of practices deemed irregular.

Auditing of Direct Market Access (DMA)

The most traditional way for investors to trade on the exchange is by contacting the brokerage house with they have an account to transmit their buy and sell orders. Once the brokerage house has received an order from a customer, it logs on to a trading system terminal and inputs the bid or offer.

However, it is also possible for customers to access the exchange's trading system directly by using a connection model known as DMA, which stands for Direct Market Access. Four categories of DMA are currently available for direct access to BM&FBOVESPA.⁶ The most traditional category consists of a model in which an investor's orders are sent to a brokerage house, which forwards them to the exchange's trading system. This is how the "home broker" online trading platform works,

⁶ Details of BM&FBOVESPA's Direct Market Access (DMA) models can be obtained from BM&FBOVESPA's website (Services / Trading Solutions / Direct Market Access (DMA)).

for example. Some DMA models enable investors' orders to enter the trading system directly, without needing to go through a brokerage house's technological infrastructure.

Regardless of the DMA model used, an investor can only access the exchange under the responsibility of a participant (a brokerage house or broker-dealer). Thus whenever investors trade via DMA, they necessarily maintain the link with a brokerage house, which is responsible for monitoring customers' trades and setting trading limits for them.

To ensure these models work properly, it is important for participants to have adequate systems for controlling pre-trading risk (systems that check whether orders sent and positions held by customers comply with certain prerequisites).

BSM audited 44 pre-trading risk control tools in 2013.

Auditing of BM&FBOVESPA's oversight of issuers' fulfillment of obligations

BM&FBOVESPA has rules for the listing of securities issuers and supervises compliance with these rules through its Issuer Regulation Department.

In 2013 BSM evaluated the fulfillment of obligations by 110 issuers in all listing types and segments.

The evaluation focused on the basic requirements applicable to all issuers registered with BM&FBOVESPA, as well as additional requirements that vary according to listing type or segment (Novo Mercado, Level 1, Level 2, traditional, and Bovespa Mais).

MRP auditing

MRP audits are performed to clarify technical issues in proceedings relating to claims against the Investor Compensation Mechanism (MRP). For more information about the MRP, see the specific section of this Report (p. 20).

In 2013 BSM produced 215 audit reports on technical matters involved in MRP claims.

Other audits

BSM also performs specific audits requested by the regulators or BM&FBOVESPA, and in response to other factors such as criminal charges or complaints.

In 2013 BSM performed eight specific audits, most of which aimed to investigate problems relating to persistent negative balances in accounts held by investors or proprietors of participants.

Other participant-related activities

BSM's audit managers are also responsible for offering guidance to market participants on compliance with the rules and regulations. This is done through workshops and meetings with participants.

MARKET SUPERVISION

BSM's market supervision activities consist of the 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 abusive practices such as 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.

All bids, offers and transactions processed by BM&FBOVESPA's markets are analyzed by BSM's market surveillance systems. Alerts are issued when deviations that may relate to irregularities are detected, triggering investigation by analysts in the Market Supervision Division.

BSM currently analyzes orders and transactions using data mining tools that are parameterized by its team of specialists in accordance with the needs of Market Supervision.

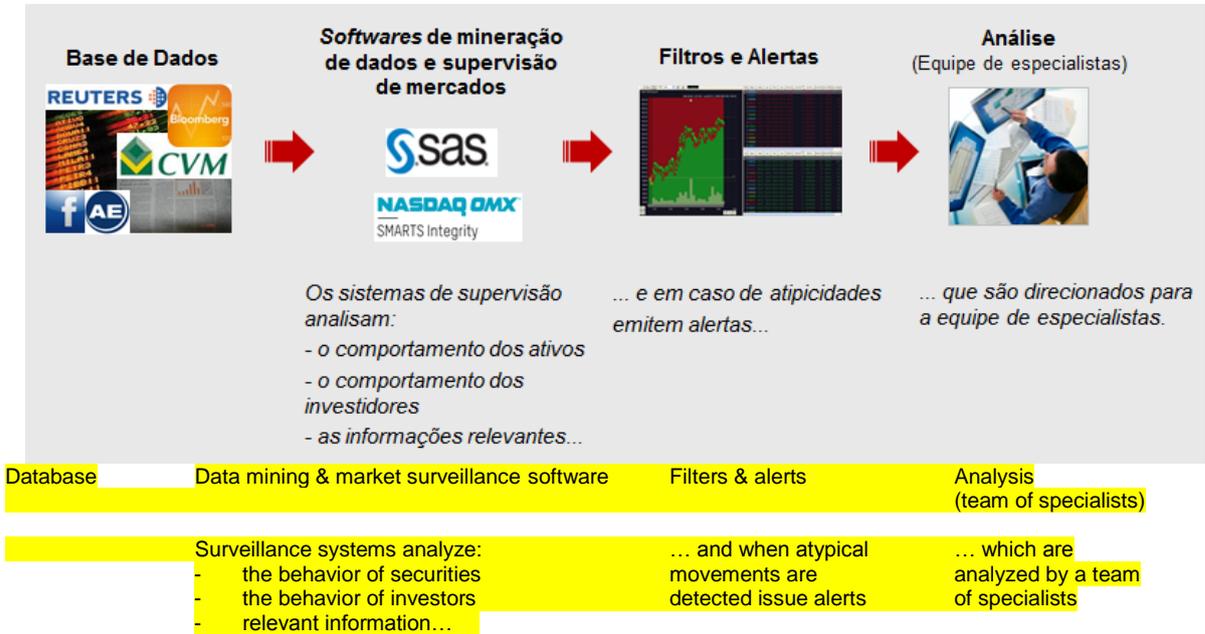
BSM is equipped to analyze all bids and offers sent to the trading systems, as well as orders matched and transactions executed. This is fundamental in electronic markets, where there is strong growth in high-frequency trading characterized by many more orders than trades.

Market supervision is performed in three dimensions:

- Analysis of evidence of atypical trading (volume and price)
- Analysis of evidence of atypical investor behavior
- Analysis of all information regarding securities and investors, including market information

For securities traded on BM&FBOVESPA's markets, price and volume fluctuations are analyzed, as well as indexes, mergers and acquisitions, published financial results, and all material events disclosed by listed companies. With regard to investor behavior, the analysis encompasses transaction history, changes in trading profile, results obtained over time, and counterparties.

Figure 2
Simplified flow chart of market supervision activities



The above forms of analysis identify any mismatches between price or volume fluctuations and the information disclosed by the company concerned, as well as unusual investor behavior in terms of mismatches between typical and actual trading patterns. In all these dimensions, alerts are triggered when the surveillance systems detect atypical behavior or movements that may indicate irregularities.

The alerts issued by the surveillance systems are analyzed by BSM's technical staff, who request clarification from participants involved in suspicious activities. If there is evidence of irregularities, a Market Oversight Report is opened to deal with the case.

100% of orders and trades
 ≈ 494.3 million trades
 ≈ 6.9 billion orders
 ≈ 91,000 alerts
 ≈ 1.955 analyses
 168 critiques of brokerage houses
 185 reports

Figure 3
Number of orders, trades, alerts, analyses and reports in 2013



The assertiveness of BSM's analyses (**Chart 1**) was raised by continuous improvement of the software filters and parameters used. Tougher assertiveness led to increased efficiency on the part of the technical team responsible for analyzing the alerts generated by the systems.

Market Oversight Reports

In 2013 BSM initiated 185 and completed 169 Market Oversight Reports. Of these, 127 led to case dismissal, 24 led to the adoption of enforcement measures, and 18 were forwarded to CVM (**Table 2**).

Some of the irregularities identified by BSM are reported directly to CVM, especially when the offenders do not come within BSM's jurisdiction because they are not market participants accredited by BM&FBOVESPA, as is often the case with insider trading, for example.

All the work done by BSM is supervised by CVM, which BSM notifies immediately if evidence of a serious violation is found. BSM also produces regular reports for CVM on the indications of irregularities detected and the action taken to address them.

Table 2
Market Oversight Reports initiated, completed and in progress

Caseload in January 2013	41
(+) Reports initiated	185
(-) Dismissed	127
(-) Forwarded to CVM	18
(-) Enforcement measures	24
Final caseload (reports in progress) at Dec. 31, 2013	57

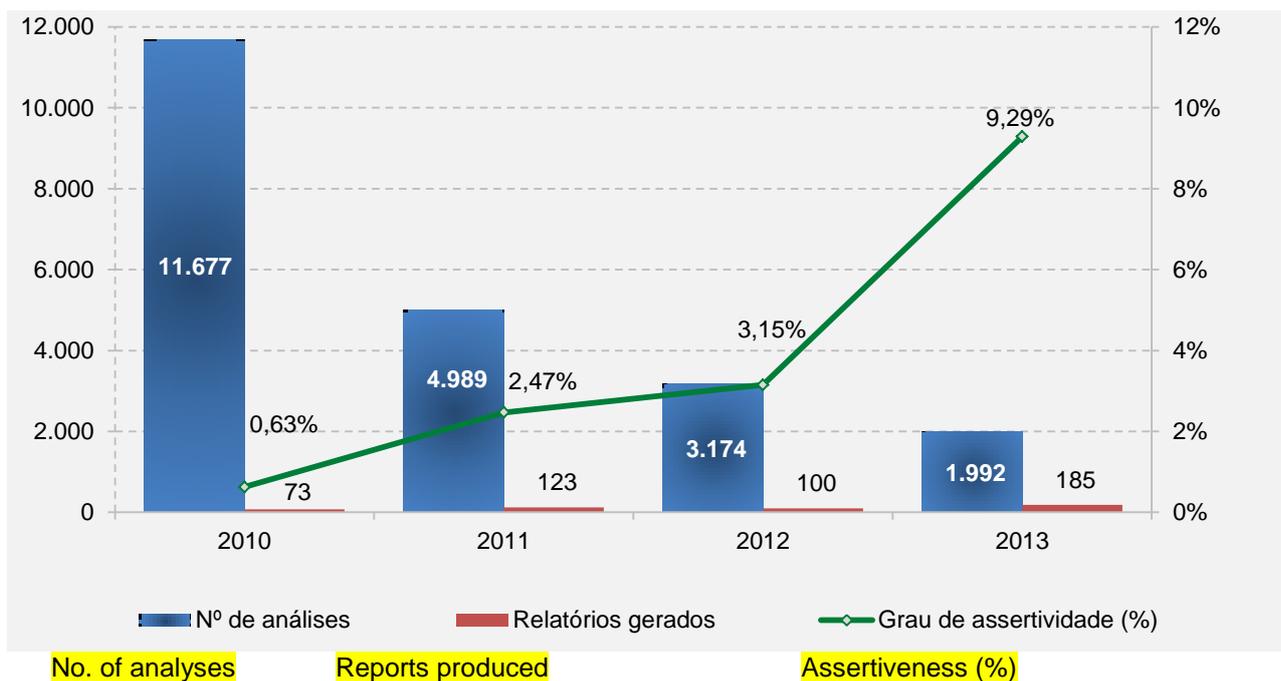
Specific requests from CVM

In 2013, besides the 185 Market Oversight Reports produced, BSM analyzed 133 specific requests from CVM.

BSM is 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 for trading.

Supervision of trading in securities issued by BM&FBOVESPA

Chart 1
Assertiveness of market surveillance analyses



Summary of Market Supervision Activities in 2013

Table 3 summarizes BSM's market supervision activities in 2013.

Table 3
Market Supervision Numbers

Type of analysis	No. of analyses	Reports produced
Behavior of asset and derivative prices and liquidity (artificial demand, supply or pricing, price manipulation, fraudulent trading, unfair practices etc.)	1,157	98
Participation by investors (fraudulent trading, money laundering, irregularly exercising activities in the securities market etc.)	684	87
Requests from CVM and other authorized bodies or departments of BSM	151	0
Total	1,992	185

ENFORCEMENT

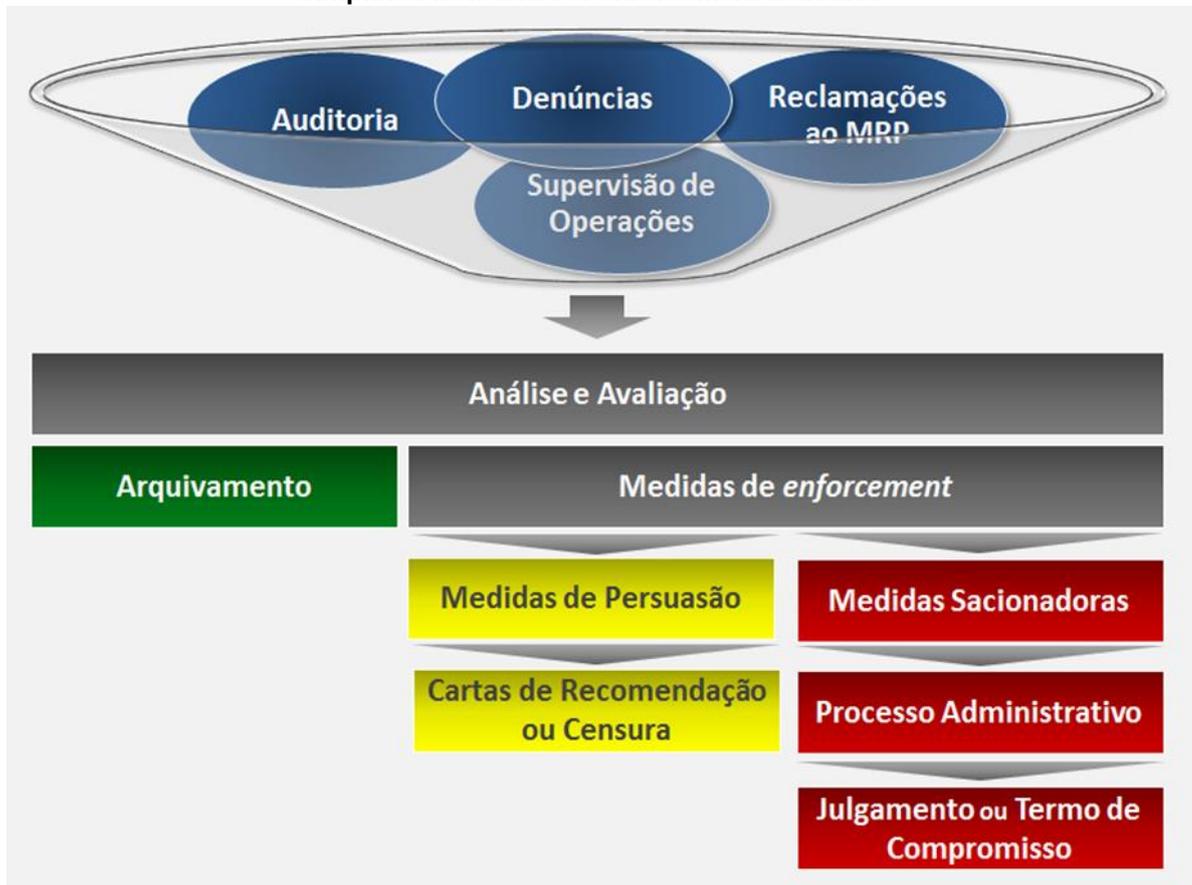
An effective system of supervision requires adequate treatment of the problems and infringements identified, ranging from educational measures and persuasion to the application of penalties, as appropriate, so that offenders can be given guidance or penalized and the problems remedied.

These enforcement activities aim 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.

- Auditing
- Allegations
- MRP claims
- Supervision of Trading
- Analysis & Evaluation
- Dismissal
- Enforcement measures
- Persuasive measures
- Punitive measures
- Letters of Recommendation or Admonition
- Administrative proceedings
- Judgments or Consent Orders

Figure 4:
Simplified flow chart of enforcement activities



Letters of Recommendation and Letters of Admonition

When non-conformities whose materiality or seriousness is not elevated are detected during market supervision activities, the application of penalties is not initially necessary. Under these circumstances BSM may send a Letter of Recommendation indicating the need for improvements to the institution's internal controls, for example. In such cases the participant is required to submit an action plan specifying the measures it will take to remedy 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 2013 BSM sent 701 Letters of Recommendation and 12 Letters of admonition.

Disciplinary Administrative Proceedings (PADs)

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 (e.g. owners or directors) or agents (e.g. traders or self-employed investment agents).

Administrative proceedings may result in the following penalties pursuant to BSM's bylaws:

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

To guarantee the validity of their decisions, BSM's administrative proceedings observe universally accepted procedural principles, particularly the right to a full defense and the right to an adversarial hearing, as well as the principles of legality, fairness, proportionality, and 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 an offender to undertake to implement measures designed to prevent any repetition of the offense or offenses that gave rise to the proceedings. Payment of a monetary consideration may also be required.

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.

In 2013 BSM initiated 65 disciplinary administrative proceedings involving 164 defendants. **Table 4** shows a breakdown by type of defendant.

Table 4
Defendants in disciplinary administrative proceedings initiated during 2013

Type of defendant	No.
Participants	49
Self-employed investment agents	29
Traders	35
Directors	51
Total	164

Charts 2 and **3** show a breakdown of these administrative proceedings by origin and the main problems that gave rise to them.

It is important to note that all decisions in administrative proceedings are public and available on BSM's website (in Portuguese).⁷

Fifty-seven of the administrative proceedings initiated arose from investigations conducted as part of BSM's supervision and inspection activities, while seven arose from irregularities identified in proceedings relating to MRP claims.⁸ Finally, one administrative proceeding

was initiated after BSM received a report of alleged infringements.⁹

⁷ www.bsm-autorregulacao.com.br (Supervisão de Mercado / Processos Adm. Concluidos).

⁸ Administrative proceedings may be initiated to judge 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).

⁹ Investors, market professionals and other interested parties can report suspicious activities or alleged infringements (identifying themselves or anonymously) by calling BSM's hotline (+55 11 3272-7373), by email (bsm@bsm-bvmf.com.br) or via the internet (www.bsm-autorregulacao.com.br).

Chart 2
Origin of Administrative Proceedings Initiated in 2013

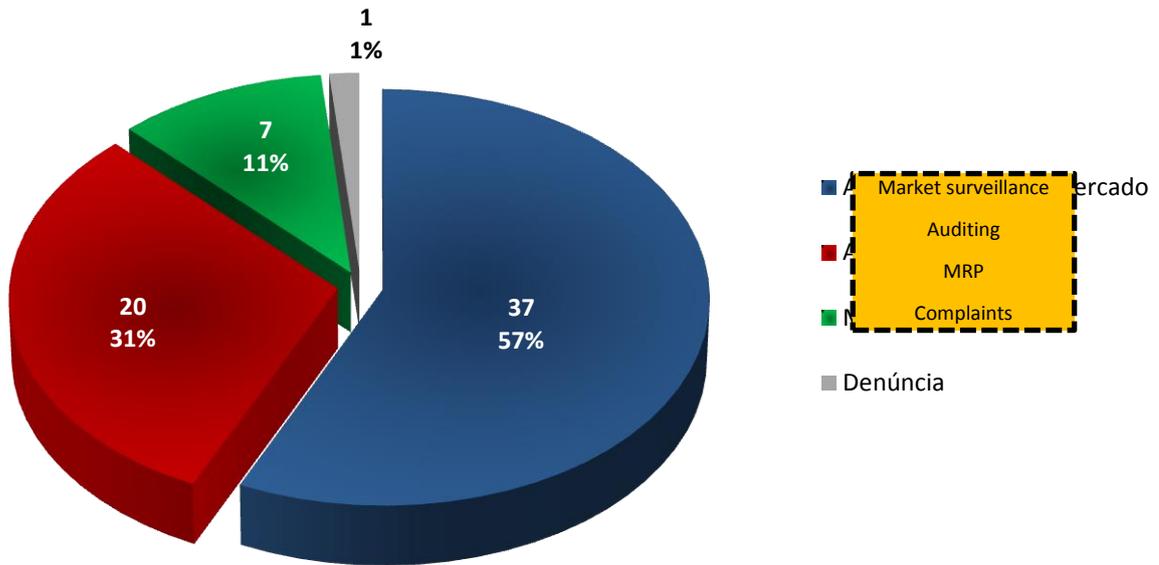


Chart 3
Substance of Administrative Proceedings Initiated in 2013

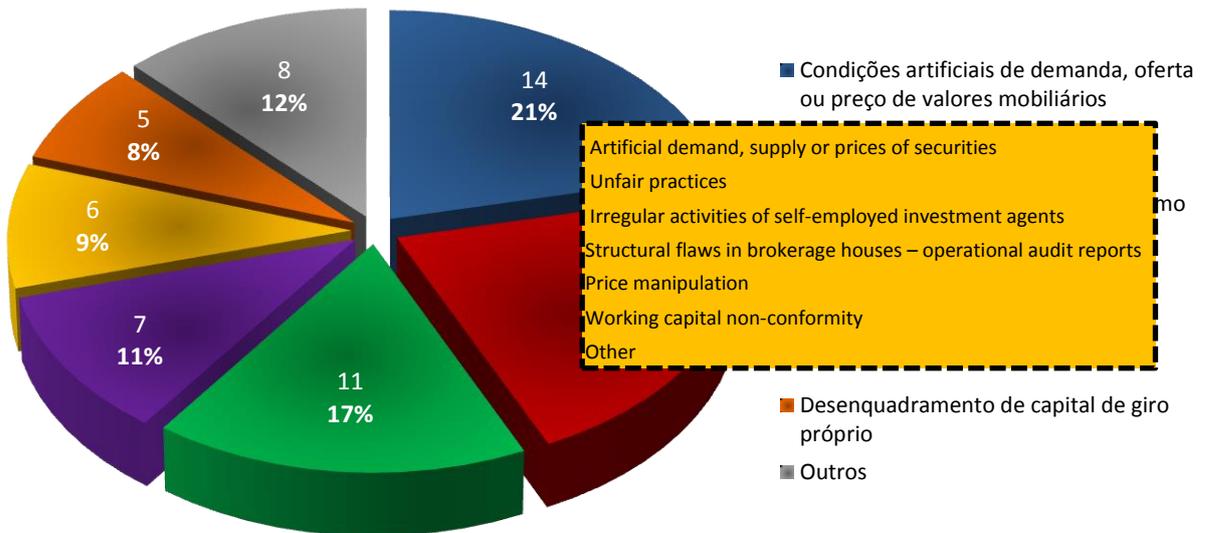


Chart 4 shows the number of administrative proceedings initiated and completed in the past five years, as well as those still in progress at end-2013. BSM began the year with 83 ongoing proceedings, initiated 65 new proceedings and completed 17, ending the year with 131 ongoing proceedings: the technical staff have completed the investigative and fact-finding stage for 65 of these (legal opinions finalized, judgment pending).

period 2010-13, specifying the number of administrative proceedings completed, 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.

It is important to note that all decisions in administrative proceedings are public and available on BSM's website (in Portuguese).¹⁰

Table 5 shows the outcomes of the administrative proceedings completed in the

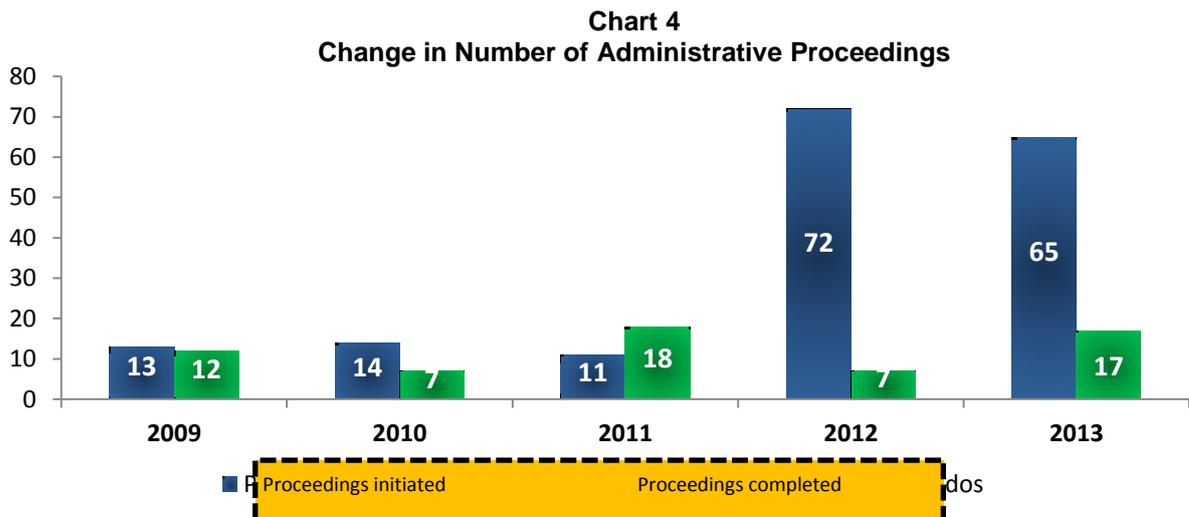


Table 5
Outcomes of Completed Administrative Proceedings

Year	PADs	Defendants	Consent orders	Decision		Penalty				Total value ¹ (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
2013	17	38	15	18	5	8	8	0	2	2,740

(1) Total value corresponds to the sum of the fines applied and monetary considerations paid pursuant to consent orders. In both cases, total value refers to the total amount paid by defendants in proceedings completed during the year in question.

¹⁰ www.bsm-autoregulacao.com.br (Supervisão de Mercado / Processos Adm. Concluidos).

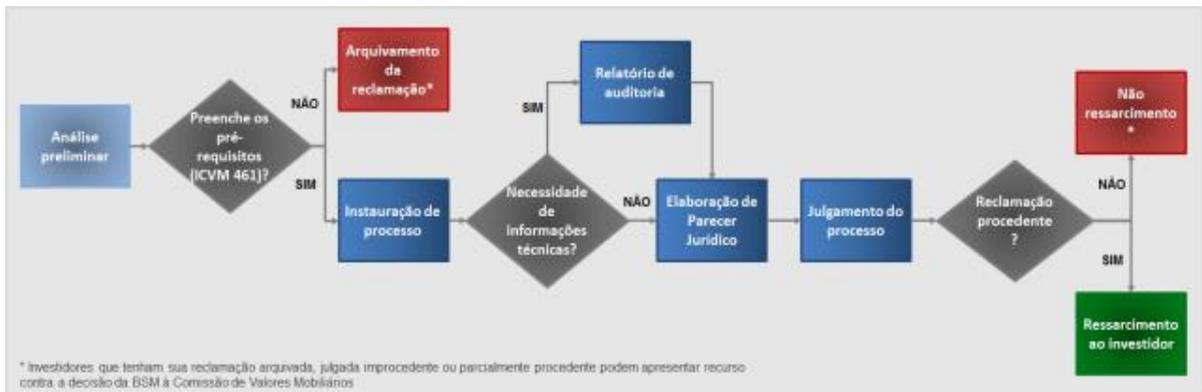
INVESTOR COMPENSATION MECHANISM (MRP)

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.¹¹

light blue the 2012 and 2013 claims relating to Diferencial CTVM's out-of-court liquidation.

In 2013 BSM made strenuous efforts to clear the backlog of claims from customers of Diferencial, so that by year-end all 178 claims arising from its out-of-court liquidation had been analyzed, investigated, and either dismissed or forwarded for judgment.

Figure 5
Simplified flow chart of MRP claim analysis, investigation and judgment



The salient feature of 2013 with regard to MRP management was the large number of claims received from customers of Diferencial, a brokerage house whose out-of-court liquidation was ordered by the Central Bank of Brazil in August 2012. A similar surge in claims due to this institution's failure had already occurred in 2012. **Chart 5** shows the number of MRP claims in the past seven years, highlighting in

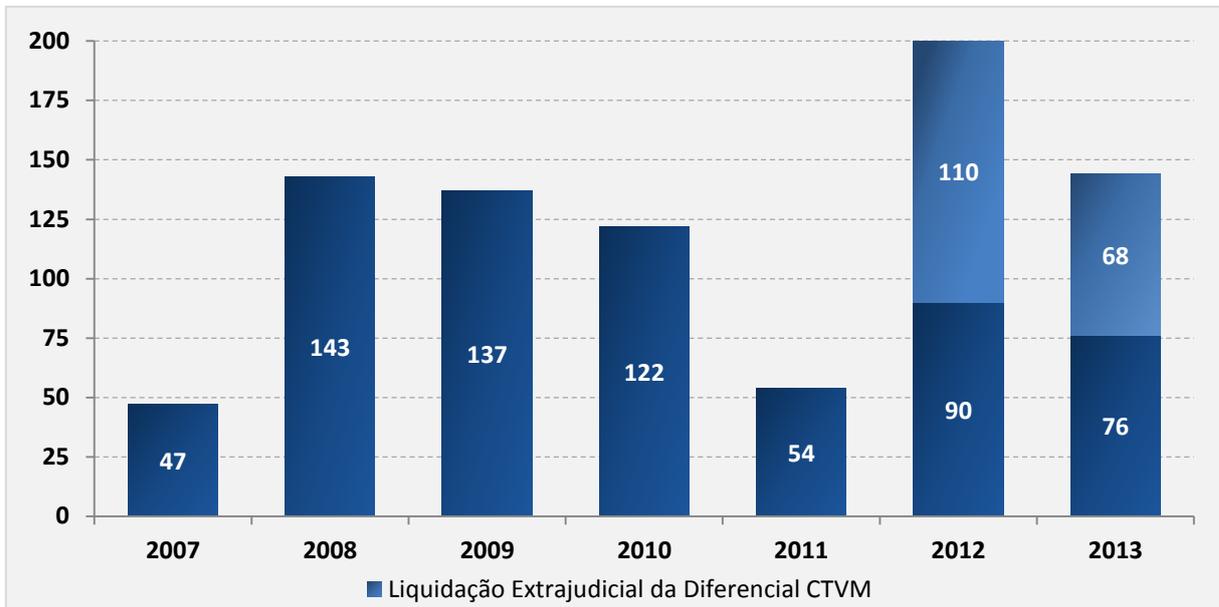
- Preliminary analysis
- Meets prerequisites (CVM 461)
- NO > Claim dismissed*
- YES > Proceeding initiated
- Technical information needed
- YES > Audit report
- NO > Legal opinion
- Judgment
- Claim accepted
- NO > No redress
- YES > Investor compensated

* Investors whose claims are dismissed, denied or accepted only partially can appeal BSM's decision to CVM.

¹¹ The status of claims filed and BSM's rulings are available at www.bsm-autorregulacao.com.br (MRP / Processos MRP).

Table 6 shows a breakdown of these claims by the stage currently reached.

Chart 5
MRP claims 2007-13



Out-of-court liquidation of Diferencial CTVM

Table 6
MRP claims received in 2012 and 2013 owing to out-of-court liquidation of Diferencial CTVM S.A.

Current stage	No.
Claims received	178
▪ Dismissed (failure to meet prerequisites established by CVM Instruction 461/07)	28
▪ Proceedings initiated	150
– Investigation/fact-finding in progress	3
– Judgment ongoing	25
– Judged	122
× Denied	28
✓ Accepted (in toto or partially)	94

Basis: March 14, 2014

Table 7 shows the number of claims received, completed and in progress in the past four years.

Table 7
MRP claims received, completed and in progress – 2010-13

	2010	2011	2012	2013
Initial caseload	173	160	119	167
+ Claims received	122	54	200	144
- Claims completed	135	95	152	117
Final caseload	160	119	167	194

Table 8 breaks down the 106 claims and proceedings completed in 2013 by dismissals, denials and claims accepted.

The total amount of compensation paid in response to claims accepted in toto or in part was R\$ 438,300.¹²

Table 8
MRP claims and proceedings completed in 2013

	No.	%
Claims dismissed for late filing or failure to meet prerequisites	50	43%
Claims dismissed owing to withdrawal by plaintiff	2	2%
Proceedings ending in claim denial	27	23%
Proceeding ending in claim acceptance (total or partial)	38	32%

¹² Not including claims accepted in part where the plaintiff appealed to CVM and the appeal had not yet been heard.

NOTICES TO COAF

Table 9
Notices Filed with COAF in 2013
Securities Segment

	Type of audit	No.
Law 9613/98 and CVM Instruction 301/99 require brokerage houses and other intermediaries, custodians, fund managers and other individuals or legal entities involved in certain activities to keep an up-to-date customer register and pay special attention to transactions that may constitute evidence of money laundering.	BM&FBOVESPA's participants	441
	BM&FBOVESPA	9
	BSM	91
	Other (asset mgrs, fund mgrs etc.)	1,075
	TOTAL	1,616

Source: COAF

Any suspicious activities must be reported to the Financial Activities Control Council (COAF), the government body responsible for preventing and combating money laundering and terrorism financing.

In the course of its supervision and inspection activities, BSM may come across situations that must be reported to COAF. This can happen, for example, during its analysis of investor behavior in the markets managed by BM&FBOVESPA or during audits.

When BSM detects a situation provided for in the aforementioned rules and regulations, it promptly reports the occurrence to COAF.

In 2013 BSM filed 91 such notices with COAF. It also worked with BM&FBOVESPA's participants to emphasize the importance of maintaining controls designed to prevent the use of securities for money laundering and urging custodians and intermediaries to report suspicious activities to COAF.

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.

An example of BSM's contribution to efforts to enhance securities market regulation is its active participation in a working group set up to discuss improvements to CVM Instruction 89 on the activities of stock transfer agents, registrars, securities custodians, bookkeepers and central securities depositories, where BSM sits alongside the Brazilian Association of Financial & Capital Market Institutions (ANBIMA), BM&FBOVESPA, the National Association of Securities, Foreign Exchange & Commodity Brokerage Houses (ANCORD), and representatives of the asset-servicing and custody industry. The group submitted a suggestion to CVM designed to define custody, bookkeeping and CSD activities more clearly.

In 2013, after a process of public hearings, CVM issued three new instructions with rules governing CSD, custody and securities bookkeeping services. In BSM's view, the regulatory improvements embodied in these new rules are aligned with the highest international standards, and the chain of responsibilities described, involving custodians, registrars and CSDs, will make the Brazilian markets even more secure.

BSM is also participating in a working group to reformulate the intermediation system, alongside BM&FBOVESPA, ANCORD, and ANBIMA. Its remit is to produce a complete diagnosis of the Brazilian intermediation industry, and to propose structural and regulatory enhancements that remove obstacles to the development of the securities markets in Brazil.

BSM is also closely following discussions on the introduction of competition among trading environments in Brazil. CVM has been analyzing this matter since 2011. The issue moved center-stage in 2013 thanks to a public hearing held by CVM, at which industry players and market participants offered suggestions regarding markets with more than one trading platform, including (i) considerations on rules for best execution, (ii) views on connections between intermediaries and multiple trading platforms, and on the consolidation of pre-trading and post-trading data, and (iii) aspects of market supervision. BSM and BM&FBOVESPA jointly sent CVM their considerations on the topics discussed at the hearing.¹³

Besides contributing to efforts to enhance the laws and other norms that regulate the Brazilian securities markets, BSM also participates actively in reviews of BM&FBOVESPA's rules and regulations. The highlights of the 2013 review included a new

¹³ The comments and suggestions sent to CVM by BSM are available at http://www.cvm.gov.br/port/audi/sugest/ind_sugest.asp?AudMes=05&AudAno=13&Super=SDM.

improved version of the Rules for Registering Securities & Transactions in BM&FBOVESPA's Organized OTC Market, issued in February 2014, as well as new Basic Guidelines for the Operational Qualification Program (PQO), and BM&FBOVESPA's New Access Rules, to be published shortly.

INSTITUTIONAL RELATIONS

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 interacts with international counterparts in several forums, such as IOSCO's Affiliate Members Consultative Committee (AMCC).

Americas (COSRA) and the Intermarket Surveillance Group (ISG).

Table 10 lists the main events held in 2013 by the international forums in which BSM participates.

In participating in national and international forums, BSM seeks to contribute by presenting successful Brazilian experiences in regulation, supervision and enforcement.

In May BSM took part in a meeting of AMCC's Ahead of the Curve Working Group, which

Table 10
Main international forums and events in which BSM participated in 2013

Forum or organization	Event	Venue	Date
International Organization of Securities Commissions – IOSCO	Annual Conference	Luxembourg	Sep. 2013
IOSCO Affiliate Members Consultative Committee – AMCC	Mid-Year Meeting	Toronto (Canada)	May 2013
IOSCO Affiliate Members Consultative Committee – AMCC	Semiannual Meeting – 2nd Half	Luxembourg	Sep. 2013
Council of Securities Regulators of the Americas – COSRA	Spring Meeting	Lima (Peru)	May 2013
Council of Securities Regulators of the Americas – COSRA	Fall Meeting	Quebec (Canada)	Oct. 2013
Intermarket Surveillance Group – ISG	Spring Meeting	Kansas (USA)	Apr. 2013
Intermarket Surveillance Group – ISG	Fall Meeting	Reykjavik (Iceland)	Sep. 2013

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 other forums besides AMCC and IOSCO itself, such as the Council of Securities Regulators of the

aims to detect regulatory challenges and emerging risks at an early stage. At this meeting BSM delivered a presentation on Brazilian experiences in cooperation between regulators and self-regulatory organizations. As examples of successful experiences in the Brazilian market, it presented the cases of the Study Group for Reformulation of the Intermediation Industry and the Working Group for Reformulation of Instruction 89. BSM

participated actively in both groups, alongside BM&FBOVESPA, CETIP, ANBIMA, and ANCORD.

BSM also works continuously on improving its relations with market participants. In addition to personal contact at meetings and by phone or email, it holds meetings from time to time to discuss specific topics with participants and offer guidance on its interpretation of certain norms. For example, workshops were held in January and August 2013 to present the key findings of BSM's audits of the current accounts of customers of BM&FBOVESPA's participants, with recommendations for participants on ways to remedy the problems detected.

BSM's Participant Audit Division took part in numerous technical meetings to offer guidance in various forums, such as ANBIMA's Market and Compliance Committees, and ANCORD's Market Committee.

EDUCATION AND TRAINING

BSM's management prioritizes the highest possible qualifications for its technical staff and maintains an educational incentive program that awards scholarships to help pay for postgraduate studies. In 2013, 15 employees received this benefit.

BSM has also sought to bring experts from other countries to give courses to its entire staff and has held international workshops on relevant topics at its offices since 2011. The 2013 seminar focused on electronic trading and high-frequency traders, featuring speakers from the Commodity Futures Trading Commission (CFTC), which regulates the US derivatives markets; the Financial Industry Regulatory Authority (FINRA), the main self-regulatory organization for the US securities industry; the Investment Industry Regulatory Organization of Canada (IIROC), the Canadian equivalent; the Netherlands Authority for the Financial Markets (AFM), the Dutch regulator; and Bristol University (UK), as well as

speakers from CVM and BSM.

Besides education and training for staff, participation in courses and events at home and abroad also fosters a constant exchange of experience and information with other SROs, as well as regulators and industry associations. **Tables 11 and 12** highlight the main courses and events organized by BSM in recent years, and by CVM with BSM's support.

Table 11
International Courses and Seminars Organized by BSM

Year	Event	Speakers
May 2011	Securities Enforcement and Market Oversight Training	SEC, FINRA, FBI, DoJ, Brazilian Judiciary, Federal Prosecution Service (MPF), Federal Police (PF), CVM, Central Bank, BSM
July 2012	Commodity Futures Trading Commission Training on Derivatives Regulation	CFTC, NFA, CVM, Central Bank, BSM
November 2013	Computer-Based Trading in Capital Markets: Regulation, Supervision and Enforcement	CFTC, FINRA, IIROC, AFM, University of Bristol, CVM, BSM

Table 12
Events Organized by CVM with BSM's support

Event	Organizers	Dates
Anti Corruption & Money Laundering Training	CVM & DRCI (Brazilian Justice Ministry's Asset Recovery & International Legal Cooperation Department)	May 8-10
Securities Enforcement and Market Oversight Training	CVM	December 2-6

SECRETARIAT AND ADMINISTRATIVE SUPPORT

BSM's administrative support unit, staffed by six people, plays a vital role in enabling the organization to carry out its activities with maximum efficiency. Its main tasks are 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, CRO, managers, staff)
- ✓ Booking flights and accommodation (Supervisory Board, CRO, managers, staff)
- ✓ Controlling office material, equipment, conference rooms, subscriptions to periodicals
- ✓ Documentation – assembling case files, digitizing and filing
- ✓ Personal and telephone service

Table 13 summarizes the key statistics for these activities.

Tabela 13
Main secretariat and administrative support activities

Activity	Total 2013	Monthly average
Correspondence items sent	4,655	388
Correspondence items received	2,185	182
Document digitizing – pages scanned	141,226	11,769
Meetings with participants	202	17
Processing of receipts (travel expenses, taxis etc.)	10,475	873
Flight and hotel bookings	1,453	121

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. It can be accessed by phone, online, and in person at BSM's offices.

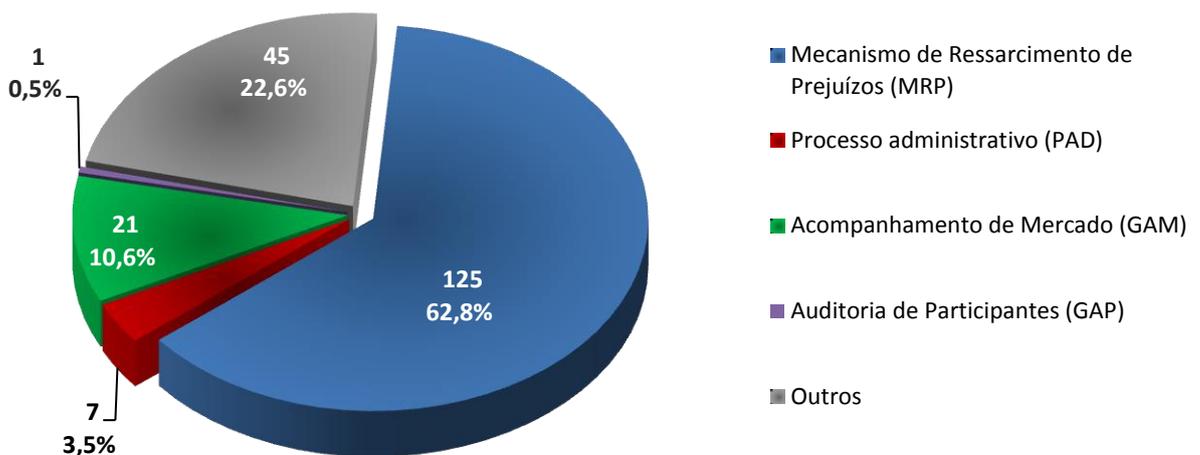
In 2013 it received 199 comments or requests for information on the topics shown in **Chart 6**.

Most of the requests for information consisted of queries from investors who wanted to know the status of their MRP claims. It is important to note that up-to-date information on the status of MRP claims is available from BSM's website.

The second most frequent reason for using the service was to find out about or alert market supervision. In most cases, investors were reporting suspicions of possible market manipulation. These reports were forwarded to the BSM unit responsible for analysis and possible disciplinary action.

It should be stressed that because BSM is duty-bound to guarantee confidentiality and secrecy, it cannot furnish details of ongoing investigations and proceedings. Summaries of judgments and decisions in completed administrative proceedings are available from its website.

Chart 6
Public Information Service (SAP) – main types of information request and complaint

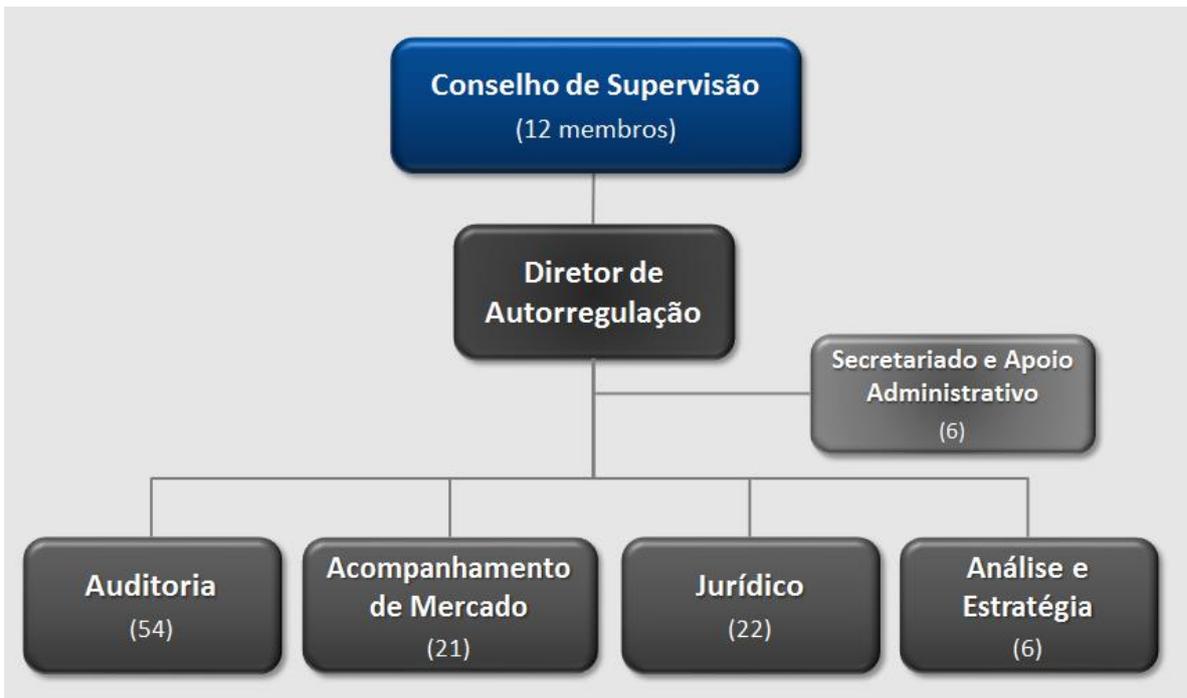


Investor Compensation Mechanism (MRP) – 125 (62.8%) / Administrative Proceedings (PADs) – 7 (3.5%) / Market Supervision (GAM) – 21 (10.6%) / Participant Audits (GAP) – 45 (22.6%) / Other – 1 (0.5%)

ORGANIZATION CHART

BSM’s organizational structure, designed to assure achievement of its objectives, is shown in **Figure 6**.

Figure 6
 BM&FBOVESPA Supervisão de Mercados (BSM) – organization chart



NB: Numbers in parentheses refer to the number of professionals employed by each department.

Supervisory Board
 (12 members)

Chief Regulatory Officer

Secretariat & Administrative Support

Auditing Market Supervision Legal Analysis & Strategy

BSM - BM&FBOVESPA Supervisão de Mercado

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