



BM&FBovespa SUPERVISÃO DE MERCADOS

ACTIVITIES REPORT

2015



MISSION

We protect the integrity of the markets managed by BM&FBOVESPA and the investors who trade on them.

MANDATES

- ✓ 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
- ✓ Oversight of BM&FBOVESPA's activities as an issuer of listed securities and operator of securities markets
- ✓ Conducting disciplinary administrative proceedings to investigate irregularities, and penalizing offenders
- ✓ Managing the Investor Compensation Mechanism (MRP)

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Introduction

The main results of BSM's activities in fulfilling its mandates are presented in the following pages.

The highlight of 2015 was the start of supervision of BM&FBOVESPA's new market access model. The new model provides for two categories of access participant: Full Trading Participant (PNP), and Trading Participant (PN).

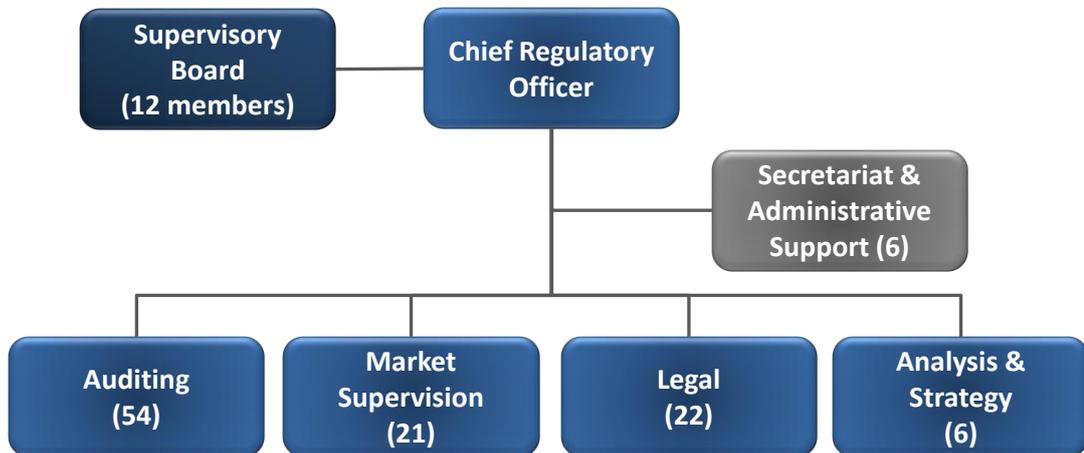
In addition to making regulatory enhancements and strengthening supervisory activities, BSM intensified enforcement in its relationships with market participants, eliminating areas of vulnerability and fostering the development of a compliance culture.

In order to contribute to domestic and global regulatory discussions, BSM organized or participated in several forums and events in 2015. In November, for example, it held a seminar on enforcement challenges in securities markets, which was attended by experts from several countries as well as BSM and BM&FBOVESPA staff and representatives of the Brazilian Securities Commission (CVM), the Central Bank of Brazil (BCB), the Brazilian Association of Financial & Capital Market Institutions (ANBIMA), the National Association of Securities, Foreign Exchange & Commodity Brokerage Houses (ANCORD), and CETIP.

Workshops were also organized in 2015 to address specific topics such as money laundering prevention, internal controls, and trading oversight.

ORGANIZATION CHART

Figure 1
BSM's Organizational Structure



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

AUDITING OF PARTICIPANTS

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

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 conducted at BM&FBOVESPA's request. As shown in **Table 1**, ten pre-operational audits were performed in 2015.

Operational Audits – Trading Participants

Operational audits appraise BM&FBOVESPA trading participants' infrastructure and processes, including such items as technology, information security, and business continuity

plans, as well as “home broker” online trading platforms and 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.

BSM's Operational Audit Program is annual and covers 100% of BM&FBOVESPA's Full Trading Participants (PNPs, trading participants with direct access to the trading systems) and 100% of its Trading Participants (PNs, trading participants who do not have direct access and trade through PNPs acting as intermediaries), although annual audits can be waived for participants with high scores in the previous year, in accordance with the methodology for classifying the results of operational audits implemented in 2014.¹

In 2015 annual audits were waived for nine participants in light of the previous year's operational audit results, and for one participant in light of the 2013 results, so that audits were waived for ten participants in 2015. The other 59 active participants were audited normally. Field auditing of all these institutions ended on December 18, 2015.

¹ 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).

As already mentioned, self-employed investment agents linked to participants are inspected as part of the scope of operational audits. These inspections are designed to verify agents' physical and technological structures, as well as their procedures. The number of self-employed agents audited in 2015 totaled 380.

Operational Audits – Registration Participants

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

BSM audits BM&FBOVESPA's Registration Participants, but audited no such institutions in 2015.

Indirect audits

Indirect auditing combines information obtained from a range of sources and treated with statistical software. This activity, considered a complement to direct audits, assesses participants' compliance with rules by analyzing the entire universe of information instead of samples only.

Indirect audits covered the following items in 2015:

- ✓ 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 to detect irregular extension of credit to customers
- ✓ Investor portfolio turnover and churning²
- ✓ Verification of compliance by participants with their own operational rules and parameters
- ✓ Certification of professionals

DMA auditing

DMA stands for Direct Market Access, which occurs when the investor accesses BM&FBOVESPA's trading system directly by means of an automated connection. Four categories of DMA are currently available for direct access to BM&FBOVESPA.³

Regardless of the DMA model used, an investor can only access the Exchange through a participant, which is responsible for monitoring customers' trades and setting trading limits for them.

² Churning is excessive trading by a broker in a customer's account, largely to generate commissions.

³ 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)).

To preserve market integrity, 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 is responsible for auditing these pre-trading risk control tools when requested to do so by BM&FBOVESPA, and audited nine of these tools in 2015.

MRP audits

MRP audits are performed to clarify technical issues in proceedings relating to claims against the Investor Compensation Mechanism (MRP).⁴

In 2015 BSM produced 353 audit reports for the fact-finding and investigative stage of MRP proceedings. Growth in MRP auditing reflected the number of claims received following the extrajudicial liquidation of Corval CTVM.

Other audits

BSM also performs specific audits requested by the Chief Regulatory Officer, in response to specific factors such as issues identified in audits performed, complaints, or orders from CVM, the Central Bank of Brazil or BM&FBOVESPA's CEO. In 2015 BSM performed 27 specific audits.

BSM offers a channel on its website for complaints by the general public. Its aim is to foster communication between the public and BSM.

Audits performed in 2015

Table 1 presents a breakdown of the audits performed by BSM in 2015.

⁴ For more information about the MRP, see the specific section of this Report (p. 17).

Table 1
Audits performed in 2015

Type of audit	No.
Pre-operational	10
Operational – Trading Participants (brokerage houses, broker-dealers)	59
Operational – Self-Employed Investment Agents	380
Indirect (based on indicators)	(1)
DMA (Direct Market Access)	9
MRP	353
Other (specific audits)	27

(1) Audits of all participants, related parties or transactions, according to the item to be assessed.

MARKET SUPERVISION

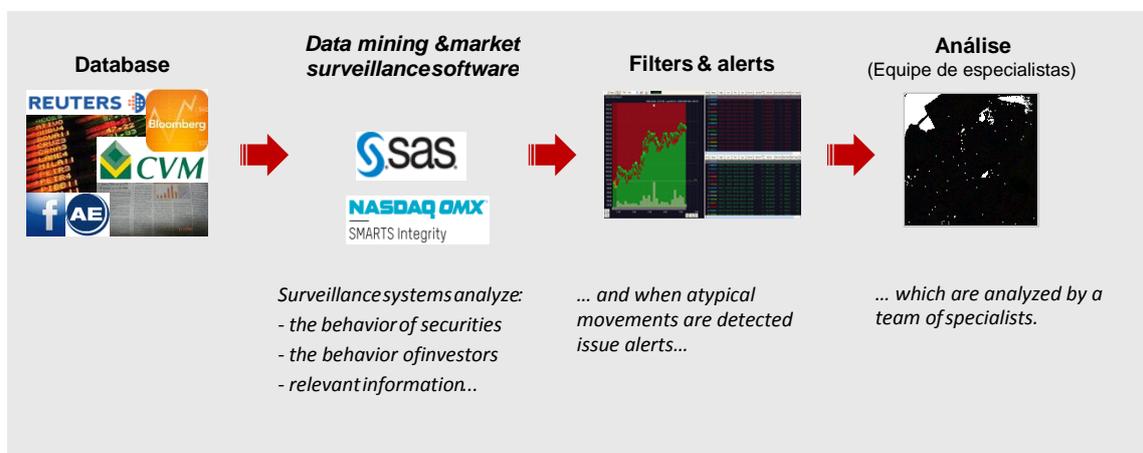
BSM's market supervision activities consist of monitoring the markets to detect deviations that may relate to the execution of irregular transactions.

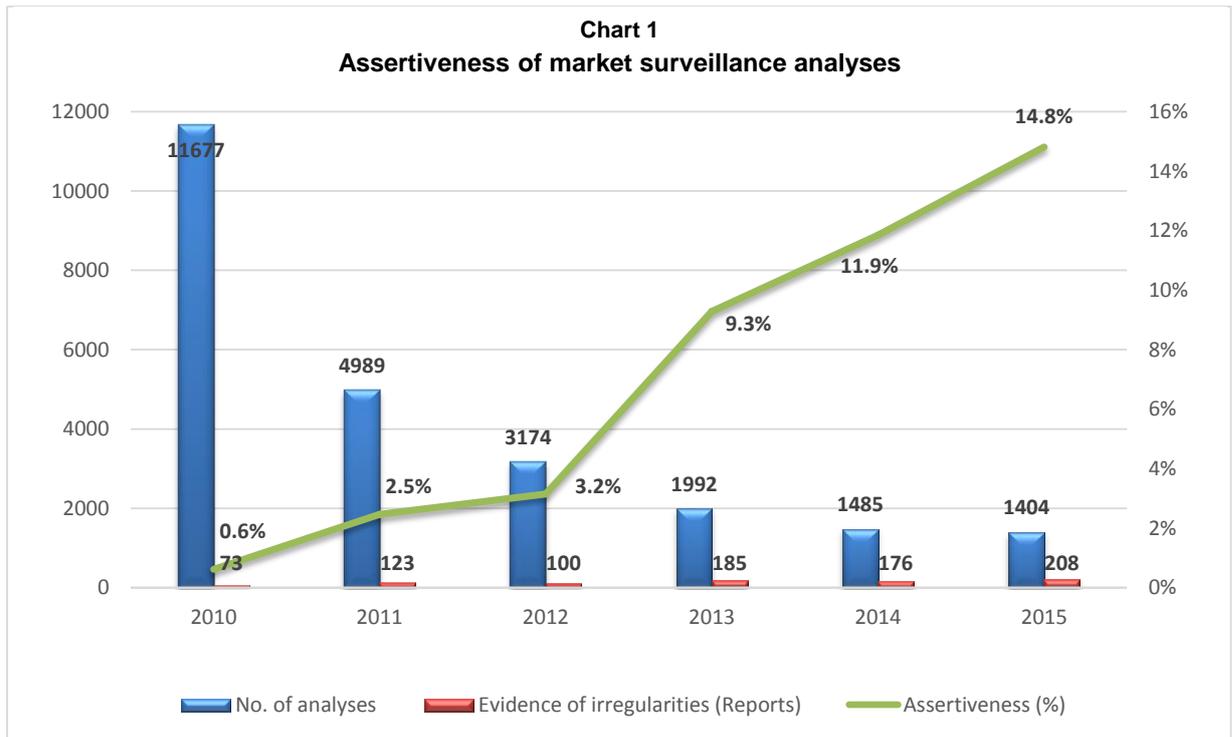
The aim of these activities is to identify practices such as market manipulation, improper use of privileged information, insider trading, creation of artificial demand, supply or pricing, unfair practices, and the irregular exercise of activities in the securities markets.

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 BSM's specialists.

If necessary, BSM can ask the participants involved in suspicious transactions for clarification. If there is evidence of irregularities, a Market Oversight Report is opened to deal with the case.

In recent years BSM's technical staff has continuously enhanced the filters and parameters used by its supervision systems, leading to increased efficiency on the part of the technical team responsible for analyzing alerts. **Chart 1** plots the rising assertiveness of BSM's analyses.





Market Oversight Reports

In 2015 BSM initiated 208 and completed 186 Market Oversight Reports. Of these, 116 led to case dismissal, 28 led to the adoption of enforcement measures, and 42 were forwarded to CVM for treatment.

Cases forwarded to CVM typically relate to situations in which the offenders do not come within BSM's jurisdiction because they are not market participants accredited by BM&FBOVESPA (or their employees or agents).

Supervision of trading in securities issued by BM&FBOVESPA

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.

Summary of market supervision activities in 2015

Tables 3 and 4 summarize BSM's market supervision activities in 2015.

Table 3

Reports initiated, completed and in progress	
Caseload (reports in progress) on January 1,,2015	63
(+) Reports initiated	208
(-) Dismissed	116
(-) Forwarded to CVM	42
(-) Enforcement measures	28
Caseload (reports in progress) on December 31,,2015	85

Table 4
Market supervision in 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.)	799	87
Participation by investors (fraudulent trading, money laundering, irregularly exercising activities in the securities market etc.)	1,140	91
Requests from CVM and other authorized bodies or departments of BSM	97	-
Total	2,036	178

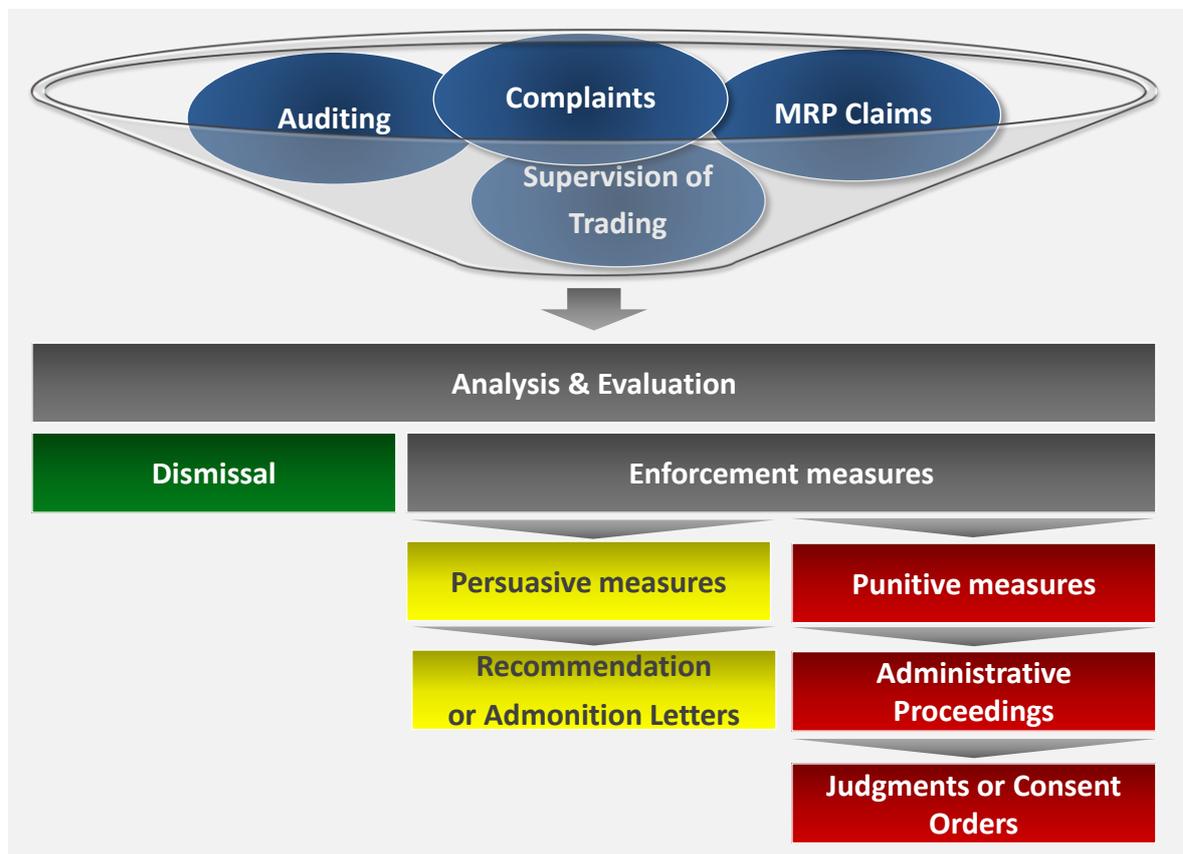
ENFORCEMENT

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, encourage the implementation of adequate internal controls by market institutions, penalize offenders, and prevent repetition of violations.

As shown in **Figure 3**, the evidence of infringements detected by BSM's supervision activities, the complaints received, and the MRP claims submitted are 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 the application of penalties by BSM.

Figure 3:
 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, 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 usually 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 2015 BSM sent 97 Letters of Recommendation and 40 Letters of Admonition. The Letters of Recommendation addressed the irregularities identified in indirect audits, including failure to comply with economic and financial requirements, and trading by persons linked to other participants.

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. These may involve not only BM&FBOVESPA's participants as institutions, but also their representatives (e.g. owners or directors) and 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 and regulations

To guarantee the validity of its 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, which typically requires an offender to undertake to implement measures designed to prevent any repetition of the occurrences that gave rise to the

proceedings and pay a monetary consideration.

In 2015 BSM analyzed 58 consent order proposals, approving 13 and denying 10. In 35 cases, acceptance was conditional upon an increase in the monetary penalty or implementation of additional measures

In 2015 BSM initiated 35 administrative proceedings with 62 defendants. **Table 5** shows a breakdown by type of defendant.

BSM has substantially reduced the average time taken to finalize administrative proceedings, which was 208 days in 2015, compared with 544 days in 2014.

Table 5

Defendants in Disciplinary Administrative Proceedings Initiated During 2015

Type of defendant	No.
Participants	14
Directors of Participants	12
Traders	24
Self-Employed investment agents	11
Managers of investment funds	1
Total	62

Tables 6 and **7** show a breakdown of these administrative proceedings by origin and the main problems that gave rise to them.

Table 6

Origin of Disciplinary Administrative Proceedings Initiated in 2015

Origin	No.
Market supervision	20
Participant audits	12
Investor Compensation Mechanism (MRP)	2
Complaints	1
Total	35

Twenty of the administrative proceedings initiated arose from investigations conducted as part of BSM's supervision and inspection activities, while two arose from irregularities identified in proceedings relating to MRP claims⁵ and one from a complaint received by BSM via its channels for communication with the public.

Table 7

Substance of Disciplinary Administrative Proceedings Initiated During 2015

Substance	No.	%
Artificial demand, supply or pricing	13	37%
Irregular activities of self-employed investment agents	7	20%
Price manipulation	3	9%
Conflicts of interest	2	6%
Non-compliance with working capital requirement	2	6%

⁵ 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).

Deficiencies in registration details	2	6%
Unfair practices	1	3%
Churning	1	3%
Structural flaws in brokerage houses – audit reports	1	3%
Non-compliance with equity requirements	1	3%
Non-compliance with BSM's orders	1	3%
Irregular activities in BMF segment	1	3%
Total	35	100%

Table 8 shows the outcomes of the administrative proceedings completed in the period 2010-15, 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).⁶

⁶ www.bsm-autorregulacao.com.br (Supervisão de Mercado / Processos Adm. Concluídos).

Table 8
Outcomes of Completed Administrative Proceedings

Year	PADs	Defendants ¹	Consent orders	Judgments		Penalties				Total value ² (R\$ 000)
				Conviction	Acquittal	Warning	Fine	Suspension	Disqualification	
2010	7	9	7	2	-	-	1	-	1	1,028
2011	18	33	16	14	3	7	5	-	2	3,591
2012	7	15	7	6	2	4	1	1	-	900
2013	17	38	15	18	5	8	8	-	2	2,740
2014	45	86	51	24	14 ³	12	12	-	-	6,659
2015	77	154	9	81	64	18	54	0	9	4,906

- (1) The sum of the monetary considerations paid pursuant to consent orders and convictions may exceed the number of defendants, since in some cases the defendant signs a consent order relating to some infringements and is convicted on other charges.
- (2) Total value corresponds to the sum of the fines and monetary considerations pursuant to consent orders effectively paid to BSM in the year in question.
- (3) Includes four cases dismissed involving seven defendants all told.

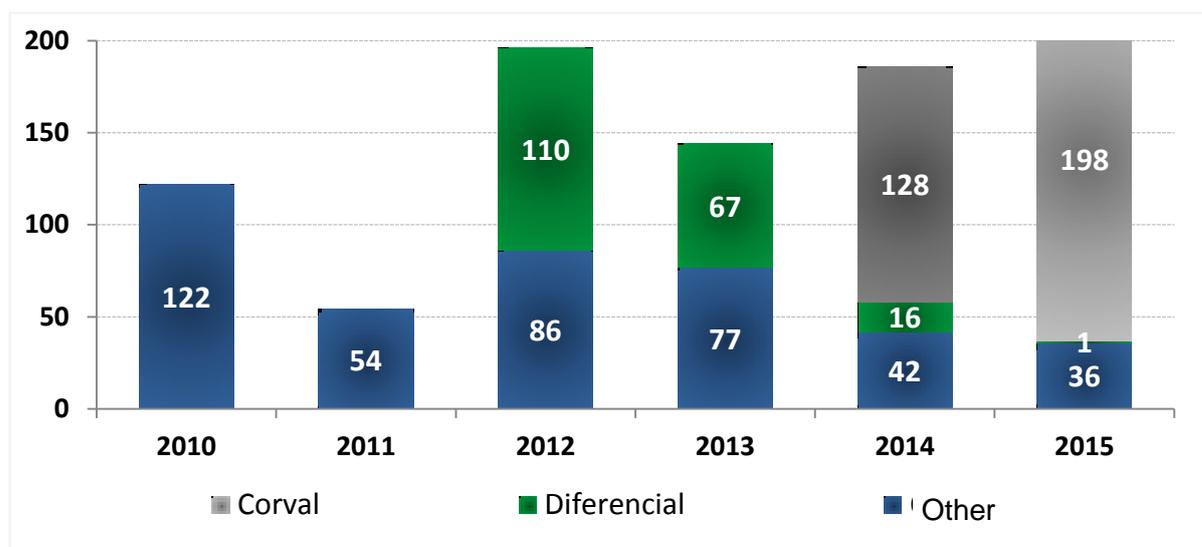
INVESTOR COMPENSATION MECHANISM (MRP)

CVM Instruction 461/2007 requires all exchange markets to have an investor compensation mechanism to ensure that investors are compensated for losses resulting from action or omission attributable to market participants. BSM manages BM&FBOVESPA's Investor Compensation Mechanism (MRP) and is therefore responsible for analyzing and ruling on compensation claims filed by investors.⁷

Chart 2 shows the number of MRP claims in the past five years, highlighting the significant increase in the past three years due to out-of-court liquidation of Diferencial and Corval, brokerage houses that were participants accredited by BM&FBOVESPA.⁸

In 2015 BSM made strenuous efforts to analyze, initiate and finalize proceedings on the backlog of claims from customers of Corval. Out of 326 claims filed by customers of this brokerage house, we had completed 263 by December 31, 2015.

Chart 2
MRP claims



⁷ The status of claims filed and BSM's rulings are available at www.bsm-autorregulacao.com.br (MRP / Processos MRP).

⁸ The Central Bank of Brazil ordered the out-of-court liquidation of Diferencial and Corval on August 9, 2012, and September 11, 2014, respectively.

Table 9 shows the number of claims received, completed and in progress in the past five years. It is worth noting that in 2015 BSM

completed the processing of a record number of claims (333).

Table 9
MRP claims received, completed and in progress

	2010	2011	2012	2013	2014	2015
Initial caseload	173	160	119	167	185	183
Claims received	122	54	200	144	185	235
Claims completed	135	95	152	126	187	333
Final Caseload	160	119	167	185	183	85

Table 10
Claims completed in 2015

Decision	No.	%
Claims dismissed (late filing or failure to meet prerequisites)	31	9%
Agreement between parties	5	2%
Claims denied	84	25%
Claims accepted (totally or partially)	213	64%
Total	333	100%

Table 10 breaks down the 333 claims completed in 2015 by dismissals, denials and claims accepted. The total amount of compensation paid in response to claims accepted in toto or in part was. In 2015 the total amount of compensation BSM paid in response to claims accepted in toto or in part was R\$4,906,276.47⁹.

⁹ Not including claims accepted in part where the plaintiff appealed to CVM and the appeal had not yet been heard.

NOTICES TO COAF

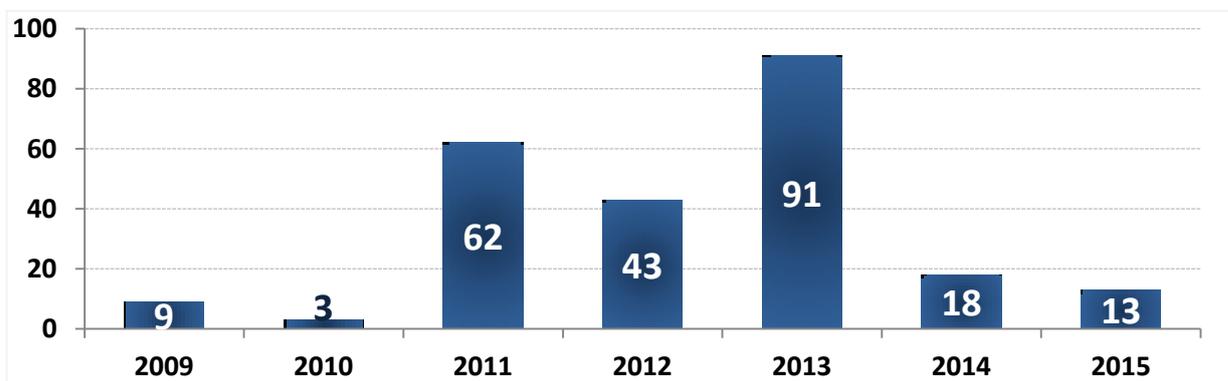
Law 9613/1998 and CVM Instruction 301/1999 require brokerage houses and other intermediaries, custodians, fund managers, and other individuals or legal entities involved in certain activities to keep an up-to-date customer register and monitor customer transactions continuously, paying special attention to activities that may constitute evidence of money laundering.

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. In 2015 BSM filed 13 such notices with COAF.

BSM also works 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.

Chart 3
Notices filed with COAF by BSM



INSTITUTIONAL AND INTERNATIONAL RELATIONS

BSM is in constant touch with Brazilian securities markets regulators at CVM and the Central Bank, both to exchange information on surveillance, supervision and enforcement, and to discuss enhancements to legal norms and regulatory procedures.

BSM also interacts with other self-regulatory organizations and industry associations, such as the Brazilian Association of Financial & Capital Market Institutions (ANBIMA), and the National Association of Securities, Foreign Exchange & Commodity Brokerage Houses (ANCORD).

Internationally, BSM participates in other forums involving regulators and self-regulatory organizations, such as the International Organization of Securities Commissions (IOSCO), the Council of Securities Regulators of the Americas (COSRA) and the Intermarket Surveillance Group (ISG).

It also participates in working groups and committees in these organizations, such as IOSCO's Affiliate Members Consultative Committee (AMCC). Affiliate members of

IOSCO include other self-regulatory organizations and international associations.

BSM seeks constant dialogue with all actors in the Brazilian markets, organizing events on relevant topics, including workshops to offer market participants guidance on specific issues.

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 MBA and other master's courses and postgraduate studies. In 2015, nine employees received this benefit.

BSM also encourages staff to take specific training courses abroad, such as those offered annually by the Securities & Exchange Commission (SEC), which regulates the US stock market, and the Commodity Futures Trading Commission (CFTC), which regulates the US derivatives market.

BSM has also sought to bring experts from other countries to give courses to its entire staff and has held international seminars on relevant topics at its offices since 2011. The 2015 seminar focused on Trends in Securities Markets and Challenges to Effective

Regulation and Supervision, featuring speakers from the SEC; the Financial Industry Regulatory Authority (FINRA), the main self-regulatory organization for the US securities industry; IOSCO; the University of St Gallen (Switzerland); and speakers from CVM and BSM – see **Table 11**.

Almost 100 people attended this course, including staff from BSM and BM&FBOVESPA, and invited representatives of CVM, the Central Bank of Brazil, ANBIMA, ANCORD and CETIP.

Table 11
Events supported and/or organized by BSM

Event	Organized by	Date
Workshop on Insider Trading Enforcement Challenges in the USA, Europe and Brazil	BSM & FGV	April 6, 2015
Workshop on Self-Regulation by BM&FBOVESPA: Compliance with Access Rules and Participants' Responsibilities	BSM	September 3, 2015
International course on Trends in Securities Markets and Challenges to Effective Regulation and Supervision	BSM	November 9-10, 2015

ADMINISTRATIVE ACTIVITIES

BSM's secretariat and 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 12 summarizes the key statistics for these activities.

Table 12
Main secretariat and administrative support activities

Activity	Total 2015	Monthly average
Correspondence items sent	4,572	381
Correspondence items received	3,006	334
Document digitizing – pages scanned	190,026	21,114
Meetings with participants	128	14
Processing of receipts (travel expenses, taxis etc.)	1,333	148
Flight and hotel bookings	1,263	105

PUBLIC INFORMATION SERVICE (SAP)

BM&FBOVESPA and BSM maintain a Public Information Service (local acronym SAP) to receive requests for information, 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.

Most of these contacts 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.

In 2015 it received 184 comments, complaints or requests for information on the topics shown in Chart 4.

Chart 4
Public Information Service (SAP) – main types of information request, comment or complaint

