



ANNUAL
REPORT

2020

Message from José Flávio Ferreira Ramos

CHAIRMAN OF THE SUPERVISORY BOARD



BSM is a B3 member company with administrative and budgetary autonomy to monitor the markets that B3 operates. These markets had more than 3 million investors in 2020.

To assure transparency and compliance with the work plan, we have a solid corporate governance structure, with pre-approved work methodologies and wide market participation in daily interactions (webinars, clarification of doubts by email and telephone). The Supervisory Board and CVM monitor the work plan within the international audit standards established by the Institute of Internal Auditors (IIA).

We make decisions about our disciplinary processes, the Investor Compensation Mechanism (MRP) and all other BSM activities, meeting formal, widely disclosed and CVM-approved procedures. Evidence, jurisprudence, and symmetry criteria guarantee their fairness. We then publish these decisions to guarantee transparency and appropriate guidance for market agents.

Always attuned to participants' needs, in 2020 BSM held 24 workshops and training courses for the market, reaching more than 1,400 professionals. We announced guidance on pertinent issues such as CVM Instruction 617 and OTC desk trading, detailed throughout this report.

BSM has sophisticated surveillance systems and monitors 100% of the orders and trades executed in B3's markets. In 2020, these systems generated 3,061 alerts, which resulted in 128 investigations.

There was a greater number of MRP activations in 2020, with 595 investors compensated totaling more than BRL 7.6 million.

At this point, I would like to express my thanks to my colleagues at the Supervisory Board for the exchange of information that was fundamental for assuring the best decisions regarding MRP disciplinary cases, BSM rule (regulations and manuals) approvals, and work program approval and monitoring. These thanks are extended to the technical area, whose interactions with the BSM Supervisory Board, B3, CVM and market participants meant we efficiently complied with the work program.

BSM's strategic plan permanently and increasingly incorporates data intelligence into surveillance and audit activities and constantly dialogs with CVM, B3 and participants to assess the effectiveness of the regulatory framework, cut observance cost and maintain the integrity of B3's markets.

We continue to focus on assuring market integrity, on sharing knowledge and on protecting the investor.

Message from Marcos José Rodrigues Torres

BSM SELF-REGULATORY OFFICER



In 2020, we continued to incorporate advanced data analysis technologies and tools. We focused on enhancing our work processes, on increasing efficiency and on remaining close to the market.

With this in mind, we held workshops, in-company training and telephone and email-based guidance, which impacted more than 5,000 professionals. We also produced and provided permanent videos for the market on specific subjects such as same investor trading and a series dedicated to participants' main IT and audit process queries.

In line with our proximity and guidance pillar, we published guidance pertinent to B3's markets such as [External Communication 001/2020-VOP-BSM](#), which deals with trading securities outside of organized markets (OTC desk trading). Other important guidance was [External Communication 004-2020-DAR-BSM](#), which contained recommendations to participants about the risk-based approach and simplified nonresident investor registration in the context of CVM Instruction 617/19. This communication was accompanied by two webinars.

In our market surveillance capacity, we

shared 1,065 alerts to help market participants supervise their clients' transactions. Our surveillance systems generated another 3,061 internal alerts, which were all analyzed by our market surveillance team.

Bearing in mind social distancing recommendations and the need for participants to take part in audits in a completely remote manner, we decided to suspend operational audits in 2020, after discussions with the Supervisory Board, with CVM and with the Market Advisory Committee. We also enhanced our audit methodology and are ready to adapt it in 2021 to each participant's work model.

As the administrators of the Investor Compensation Mechanism (MRP) we want individual investors to know it better. A BSM and B3 survey of more than 1,300 investors showed that only 11% know of the MRP and that 3% know how to activate it. This proved our suspicions and was the basis for our MRP dissemination plan, which is part of our 2021 work schedule.

In 2020, BSM received a record 1,422 demands at the MRP. In response to the increased activations,

we undertook improvements to our work process. In that same year we concluded 1,595 MRP processes, which was also a record number.

One of our priorities that has continued into 2021 is to reduce the average response time when the MRP is activated, alongside actions to preserve market integrity. We are also ready to provide self-regulation services for other administration bodies.

Our corporate culture is built on the values of Openness and Collaboration; Solidity and Operating Credibility; and Client Satisfaction and Proximity. This strengthens our commitment to guiding our publics, promoting market integrity and protecting the investor.

Supervisory Board support was fundamental for us to meet our work plan. I would also like to express my pride in and thank BSM's team, whose skill and motivation were fundamental for the results we obtained.

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SELF-REGULATION ON B3'S MARKETS

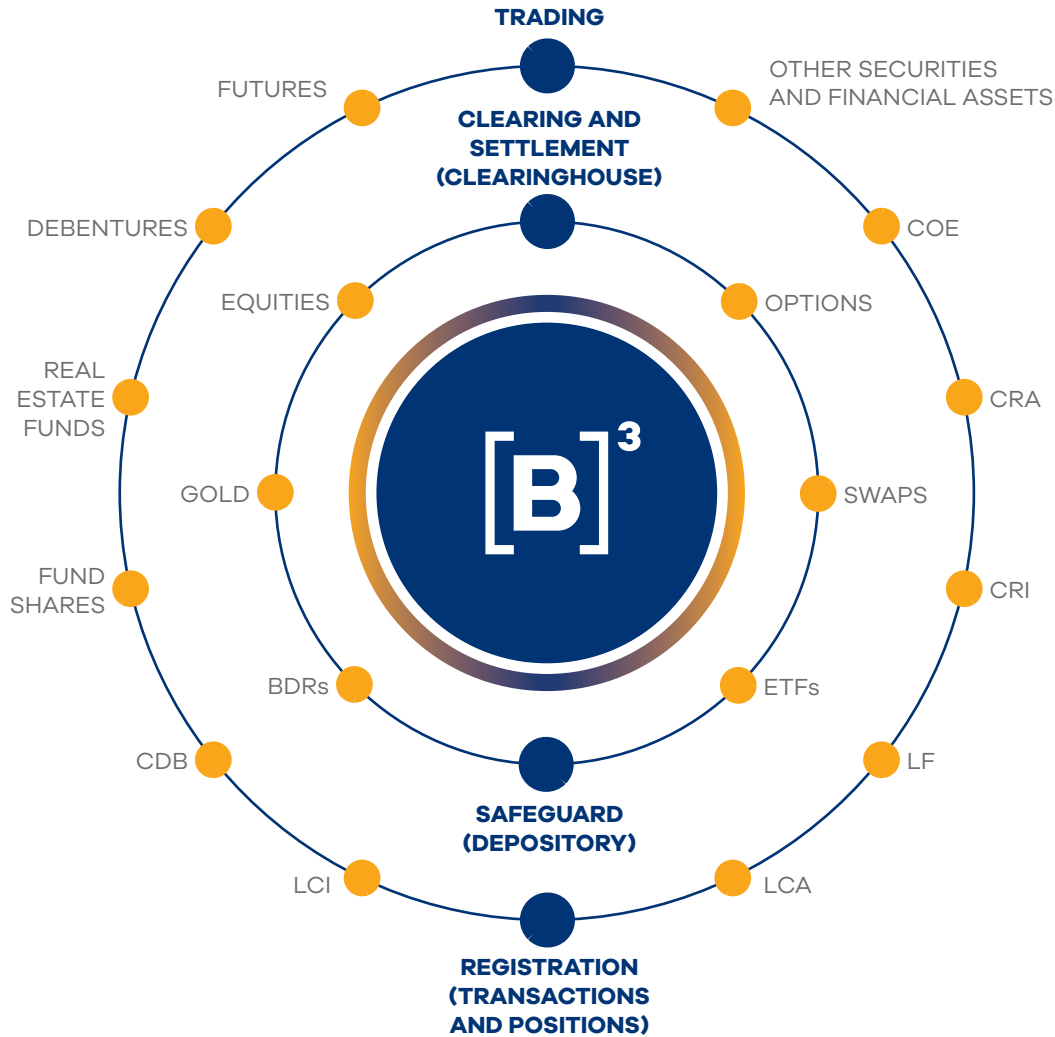
B3 S.A. – Brasil, Bolsa, Balcão provides full infrastructure for the financial and capital markets, with a vertically-integrated multi-asset trading model. In its environment the widest range of securities and financial assets are traded, registered, settled and deposited, with vertical and horizontal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

This entire ecosystem has rules that seek to promote a fair and equative environment for the different agents, in a way that the market performs its fundamental functions: enabling (i) investment alternatives for savers (individuals, pension funds and other investors), (ii) sources of financing for companies, governments and other institutions, (iii) hedging for individuals or bodies that need to protect themselves against price fluctuations of a product or currency.

BSM is the body responsible for supervision of the markets managed by B3, seeking to maintain their integrity and protect investors.

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

FIGURE 1 | B3: full infrastructure for the financial and capital market




MANDATE AND PILLARS OF ACTIVITY




- Supervise operations (orders, registrations and trades) executed in B3's markets.
- Inspect B3's participants.
- Oversee B3's activity as issuer of exchange-traded assets and market operator.
- Take measures necessary to maintain the integrity of the market, with guidance activities or, when necessary, bringing administrative proceedings that can penalize parties involved in irregularities.
- Operate the Investor Compensation Mechanism (MRP).

We perform our mandates on a three-pillar basis:




KNOWLEDGE AND GUIDANCE

We guide the market, share knowledge and assist B3's participant in adopting best practices for their controls and processes, in accordance with the market's rules.



MARKET INTEGRITY

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



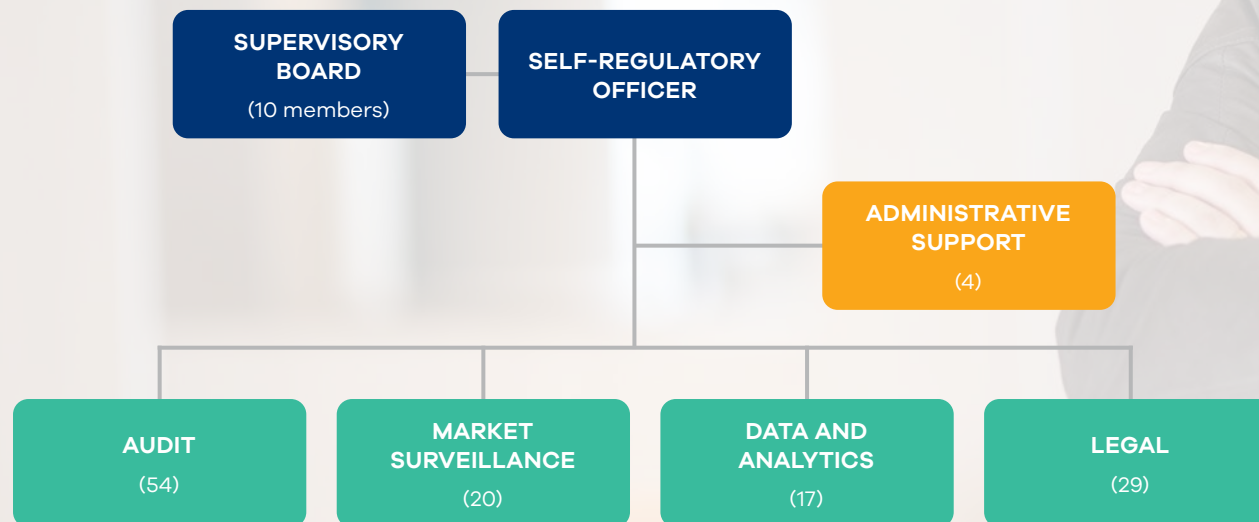
INVESTOR PROTECTION

While we transparently uphold market integrity, our Investor Compensation Mechanism (MRP) service channel reimburses investors for harmful actions or emissions on the part of B3 participants.

ORGANIZATIONAL STRUCTURE

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

FIGURE 2 | BSM Organogram



In the following pages we describe the main activities developed over 2020 based on our three pillars of activity.

SUPERVISORY BOARD



The Supervisory Board oversees compliance with the BSM work plan and also rules on administrative proceedings.

In addition, the Supervisory Board:

Approves BSM's regulatory, operational and procedural rules.

Approves BSM's annual working program and budget proposal.

Approves BSM activity reports activities submitted monthly to the regulator and the annual activities report.

Rules on Appeals submitted in the scope of the Investor Compensation Mechanism (MRP).

According to CVM Instruction 461/07, the Supervisory Board must be comprised of at least two thirds independent members. In 2020, the Supervisory Board was comprised of 11 members, including the Self-Regulatory Officer, as in Table 1 below.

TABLE 1 | Composition of the Supervisory Board at the end of 2020

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

* Independent members

Short biographies of the board members are provided on the BSM website.

In 2020, there were 23 Supervisory Board meetings, to discuss and deliberate on BSM-related matters, to rule on disciplinary administrative proceedings and analyze proposals for settlement agreements presented in ongoing investigations or disciplinary administrative proceedings.




Table 2 sets out the number of judgments and analyses of settlement agreements.

In 2020, in addition to ordinary and extraordinary Supervisory Board meetings, board members took part in three meetings with the CVM Executive Board, where they aligned the principles used in Disciplinary Administrative Proceedings and MRP hearings and discussed strategic questions involving self-regulation of the securities market.

They also took part in six meetings of the BSM Market Advisory Committee, a forum for permanent dialog with B3's market participants.

The following matters were analyzed and discussed at the Supervisory Board meetings and at the forum meetings where the board members were present:

TABLE 2 | Judgments and analyses of settlement agreements in 2020

ACTIVITY		NUMBER
 Administrative Proceedings Judgments		8
 Analysis of Settlement Agreements		2
 MRP appeal judgments		142

New Version of BSM's Procedural Rules

Opportunities to enhance BSM's Procedural Rules were identified from comments received in Market Advisory Committee meetings. In-depth Supervisory Board discussions of the subject carried on into the scope of BSM Market Advisory Committee and resulted in a proposal to modify BSM's Procedural Rules.

The new version of the Rules was submitted for CVM's approval, as stipulated in CVM Instruction 461/07. This document aims for balance between the parties, granting opportunities for the accused to access the Supervisory Board at any stage of the disciplinary administrative proceedings.

It also allows participants to consult BSM, whose answers will be binding, and establishes that ties will result in whichever ruling most favors the defendant.

Measures to increase efficiency and productivity and reduce the MRP caseload

In the past three years we have received more than 3,000 complaints to the MRP. This large volume of demands has resulted in more cases, which reached more than 1,110 at the end of June 2020.

The Supervisory Board monitored implementation of the plan of action to reduce this caseload and to prepare BSM for handling complains submitted to MRP within the deadline foreseen in the rules. The plan of action included process improvements, technology platform enhancements and adopting bolder targets for BSM's technical areas.

As a result, in the second half of 2020 more than 1,000 cases were completed, an all-time record for BSM.

Principles for judging complaints submitted to the MRP

The Supervisory Board and the technical area discussed principles for MRP cases that involve trading platform failures, which were a significant percentage of the complaints submitted to the MRP in 2020.

The Supervisory Board stressed the importance of the rule determining that intermediaries announce, and provide clients with, an alternative service channel should the trading platform be unavailable, and publish minimum client service parameters, as set forth in Circular Letters 3/2020-CVM/SMI and 6/2020-CVM/SMI.

Enforcement for brokerage houses undergoing out-of-court liquidation

In response to a claim sent the BSM technical area, the Supervisory Board resolved that brokerage houses undergoing out-of-court liquidation may be accused in administrative proceedings, for proven irregularities, before the Central Bank of Brazil declares out-of-court liquidation. The fitness of convictions will be analyzed in regard to the judgement of the actual case.

Monitoring CVM Instruction 617/19

In September, we published guidance for the market about the minimum elements participants must observe when implementing the Risk Based Approach (RBA) foreseen in CVM Instruction 617/19, which deals with the Prevention of Money Laundering and Combat of Terrorism Financing (PML/CFT) in the scope of the securities market.

This included guidance about simplified registration of nonresident investors, particularly in situations where the foreign intermediary has not provided the information necessary for full knowledge of the end investor.

The Supervisory Board actively took part in drafting the guidance and has overseen participants' monitoring of compliance with the obligations resulting from CVM Instruction 617/19.



Trading securities outside of the markets operated by B3 (OTC Desk Trading)

In October, BSM published a communication with B3 containing clarifications about trading securities outside of the markets operated by B3, which is known as OTC Desk Trading. This clarification was essential to remove participants' uncertainty and free up the market.

The matter was discussed in depth at the Supervisory Board and in interactions with B3 and participants in the scope of the Market Advisory Committee.

CVM Public Hearing about self-regulation of the organized markets

On December 27, 2019, CVM launched SDM Public Hearing 9/19, with three Drafts for (A) operating the regulated securities markets and the constitution and working of organized market administration bodies; (B) unified self-regulation of the organized markets and of financial market infrastructures operating in the regulated securities markets; and (C) best execution in a context of competition between trading environments.

On June 26, 2020, we submitted our statement with B3. The Supervisory Board took part in discussions over the first half, particularly regarding Draft B, which deals with self-regulation in the organized markets and the MRP.

We agree with the principle that the self-regulation services currently executed by BSM may be made available to other market operators that come to establish themselves in Brazil.

Regarding the composition of the Board, we believe it needs to be able to rely on members that operate in the market (2/3 independent and 1/3 not). The presence of individuals adds expertise and strengthens the levels of governance, surveillance and enforcement of the self-regulator.

Other business

The Supervisory Board also oversaw development of the following:

- Surveillance of transactions via Retail Liquidity Provider (RLP)
- Surveillance of Self-trade in auction
- Enhancements to BSM's alerts and sharing of new PML/CFT alerts with market participants
- Social media information mining to monitor for abusive practices
- Review of the model for calculating maximum and minimum MRP equity, with the support of FGV Projetos.

Finally, the Board approved enhancements to the MRP Rulebook, seeking to facilitate the compensation process by exempting investors from presenting a settlement declaration.



KNOWLEDGE AND GUIDANCE

Market guidance activities are an important pillar of our operation. Our experience shows that these activities make a very positive contribution towards upholding market integrity and protecting investors. For this reason, we have invested ever more time in holding training sessions, workshops and other forms of educational interactions with B3's participants.

Guidance channels and main subjects

In 2020, we held two workshops and 22 in-company training courses, impacting more than 5,000 people at these events. Furthermore, we answered more than 2,400 telephone and email consultations. We also provided videos on our website with guidance on specific matters as well as other important information.

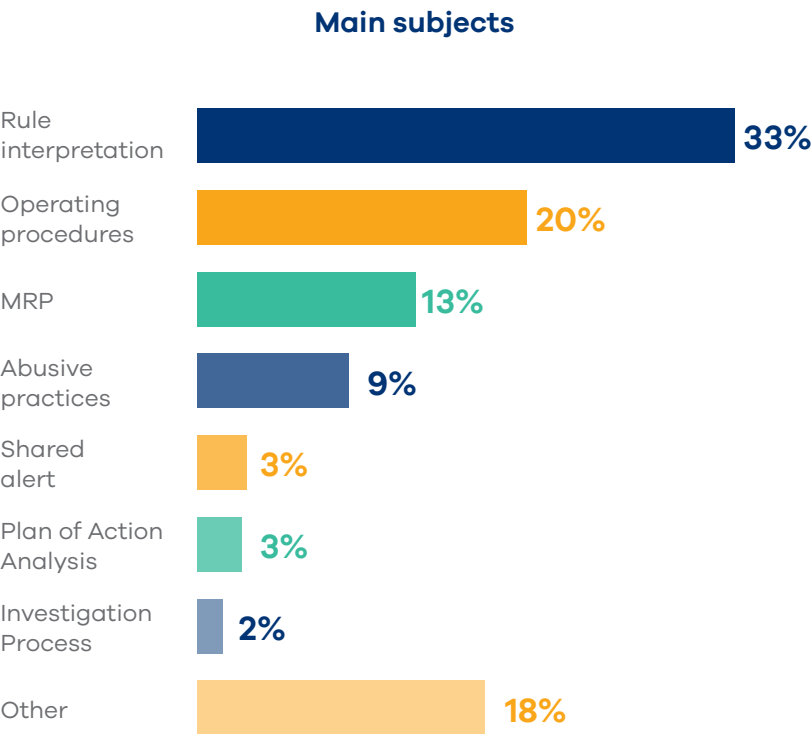
We understand that through these actions we can be close to the participants and clarify points that caused uncertainties in the institutions, thus contributing to increased efficiency and to upholding the integrity of the market.

TABLE 3 | Guidance by channel performed in 2020

Event	No. of events	No. of people assisted
Workshops	2	748
Training	22	690
Guidance (telephone/email/ in-person)	2,446	3,613
Total	2,470	5,051

In Graph 1, we set out the main subjects covered in the guidance.

GRAPH 1 | Guidance per subject in 2020



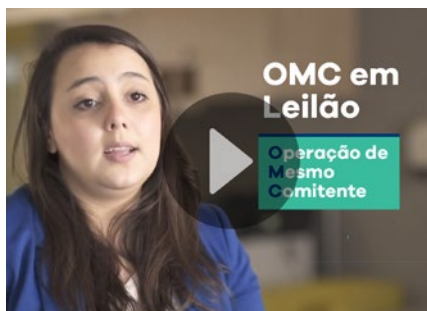
We have listed below some of the matters highlighted in the market's agenda in 2020 and which were deserving of BSM's special attention.

SELF-TRADE AT AUCTION

In August 2020 we held a webinar with B3 on surveillance of self-trade at auction, at which we presented a history of the regulation of these types of transactions, their dynamic, order cancellation rules, and diligence expected from intermediaries. 237 professionals and 59 institutions took part.



Presentation and video of the event



We also published an instructional video explaining what self-trade are and the situations in which they are allowed.

CVM INSTRUCTION 612/19

Business continuity plan, information security and internal controls report

In October, more than 500 professional representatives of 100 institutions took part in a webinar that touched on aspects relevant to CVM Instruction 612/19 and to circular letters from CVM's Superintendence of Market Relations and Intermediaries (SMI). Representatives of CVM took part in the event, which covered subjects such as:

- Business Continuity Plan, critical systems and processes, especially in operational stress situations caused by the COVID-19 pandemic.
- Communication to SMI in cases where the Business Continuity Plan (BCP) is activated and where there are significant cyber and critical system security incidents.
- Best practices for monitoring the trading platform of third parties connected to the Order Management System (OMS) of intermediaries.

In September, we published a video with guidance for participants about the 2020 Internal Controls Report, based on the changes made to CVM Instruction 505/11 as CVM Instruction 612/19 came into effect.

CVM INSTRUCTION 617/19

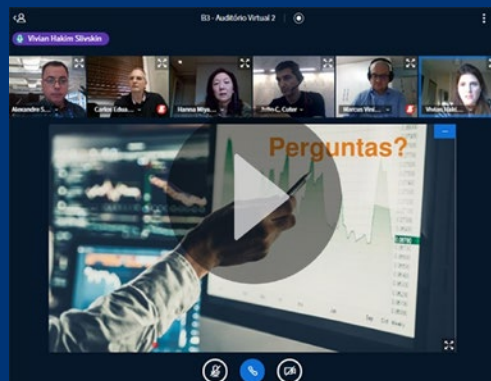
Risk Based Approach and simplified registration of nonresident investors

In September we published guidance ([External Communication 004-2020-DAR-BSM](#)), which contained recommendations for participants regarding the Risk Based Approach (RBA) and Simplified Registration of Nonresident Investors (NRI) in the context of CVM Instruction 617/19, in effect since October 1, 2020.

The guidance details a series of procedures and recommendations for the implementation of the RBA, helping to clarify doubts about what BSM and CVM consider adequate compliance with Anti-Money Laundering and Counter Terrorism Financing, while granting transparency to the surveillance objectives of BSM, reducing the observance cost and permitting regulatory effectiveness.

This was the subject of a webinar accompanied by more than 500 people.

Watch the vídeo of the event [here](#). Access the presentation [here](#).



Trading securities outside of B3's markets (OTC Desk Trading)

In October, we published [External Communication 001/2020-VOP-BSM](#) to explain to the market the types of asset that can be legitimately traded outside of the organized markets without breaching Art. 59 of CVM Instruction 461/07.

We have consolidated our understanding of this subject with B3 as follows: (i) the definition of this trading practice, called OTC Desk Trading; (ii) the applicable regulations; (iii) the conditions for OTC Desk Trading; (iv) examples of OTC Desk Trading usage compatible with the regulations; and (v) an example of an irregular transaction.

There was also discussion of the conduct and procedures that are prohibited when registering transactions originating from OTC Desk Trading in the markets operated by B3.

The document results from a joint effort between B3, CVM, the Supervisory Board and the participants, particularly in the scope of the BSM Market Advisory Committee.

Queries regarding IT processes

In February we published a series of eight videos compiling questions about IT processes that were received from participants during the previous year's audits. The videos covered the following subjects:

- main regulatory changes and IT audit test approach changes.
- trading systems.
- controls for recording orders.
- registration and suitability processes in the electronic format.
- use of infrastructure services in the cloud.
- change management process (CMP).
- matrix of segregation of responsibilities.
- identification, attribution and knowledge of the responsibilities of generic users.



Test program for 2021 Operational audit and maximum percentages for absence of orders in the 2021/22 biannual period

External Communication 006/2020-DAR-BSM is about the Operational Audit test program of 2021. As of this year, the execution of audits will prioritize remote format, if the participant has the compatible infrastructure for this, with the in-person form usable, at BSM's discretion, due to operating model or on the request of the participant.

External Communication 004/2020-DAR-BSM, meanwhile, contains the maximum percentages or order absences permitted before there is a penalty, to be considered in the work plans of the operational audits for 2021 (5%) and 2022 (4%).

In November, we published a video with guidance in this regard and summarizing the main developments of the 2021 Operational Audit.

Market Advisory Committee

Created as an intermediation channel between BSM and the participants of B3, the aims of the Market Advisory Committee are to (i) analyze and discuss issues regarding self-regulation in exchange and organized OTC markets; (ii) consolidate interpretations of the rules that apply to the securities market and whose compliance BSM inspects; and (iii) make suggestions about BSM's activities.

Its composition includes the BSM Self-Regulation Director, the Chairman of the BSM Supervisory Board, up to two representatives from B3 and up to 24 representatives of B3's participants.

In 2020 there the Advisory Committee held six meetings, at which the following subjects were discussed:

- Impacts of the COVID-19 pandemic on the participants' activities and controls and the enhancement of their contingency plans.
- New audit methodologies considering participants' remote working models.
- The enhancement of mechanisms for the classification of results of BSM's operational audits.
- Sharing new PML/CFT alerts pertaining to subparagraphs I, III and VI of CVM Instruction 301/99.
- Surveillance of self-trade in auction.
- Review of the BSM Procedural Regulation.
- Guidance for the market about the Risk Based Approach (RBA) and the simplified registration of nonresident investors (NRI), within the scope of CVM Instruction 617/19.
- Guidance for the market about trading securities outside of the markets operated by B3 (OTC Desk Trading).

International Representation

We take part in the main international bodies with regulators and self-regulators, seeking to share and acquire knowledge about audit practices, market surveillance and enforcement in capital markets.

In 2020, due to the COVID-19 global pandemic, in-person meetings were suspended. However, we continued to interact with international regulators and self-regulators. In this regard we took part in online conferences held by the International Organization of Securities Commissions (IOSCO) and of the IOSCO Affiliate Members Consultative Committee (AMCC).

We also held online meetings with international bodies to deal with specific issues such as social media surveillance and a complaints program.

COMPLAINTS CHANNEL

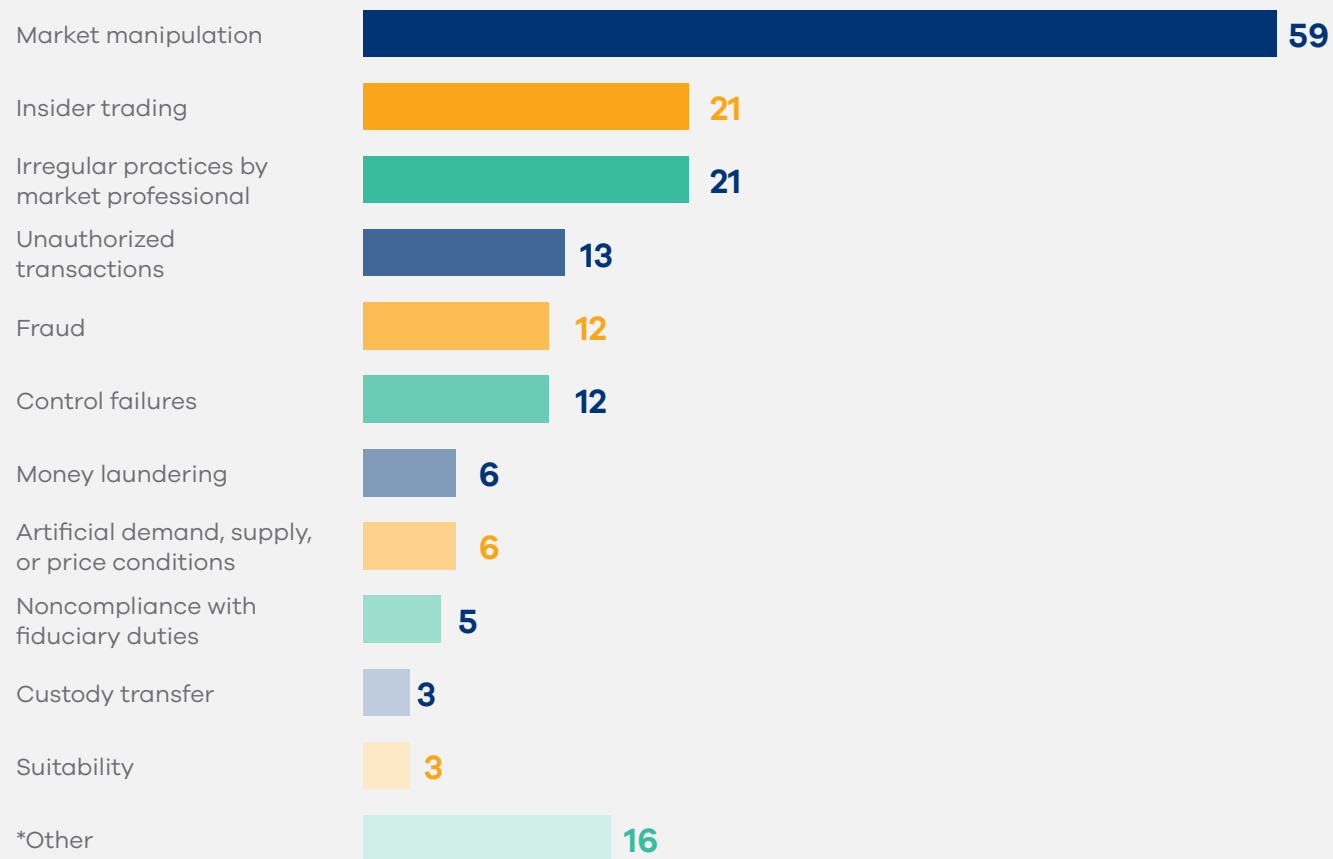


We have a complaints channel for investors, professionals, intermediaries or other individuals and institutions to make complaints about irregular activities in B3's markets.

The complaints channel is a valuable source of information for BSM's inspection activities.

In 2020, we received 177 complaints about the subjects listed in Graph 2.

GRAPH 2 | Complaints received in 2020



* Other: noncompliance with fiduciary duties, publication of information by listed companies, churning, RLP.

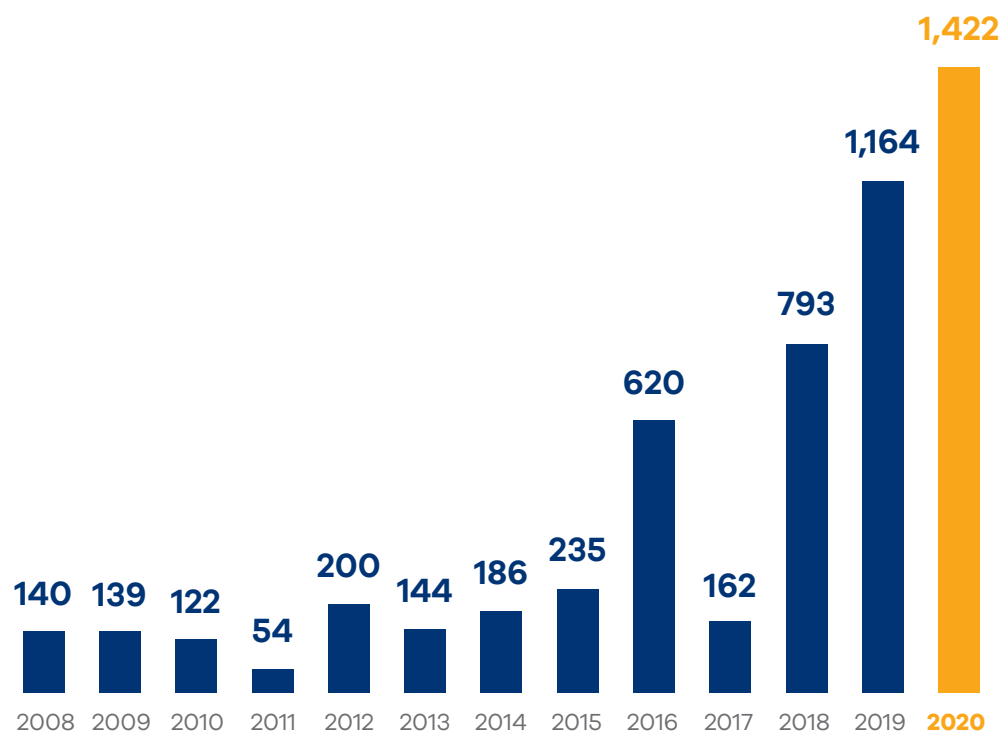


INVESTOR COMPENSATION MECHANISM (MRP)

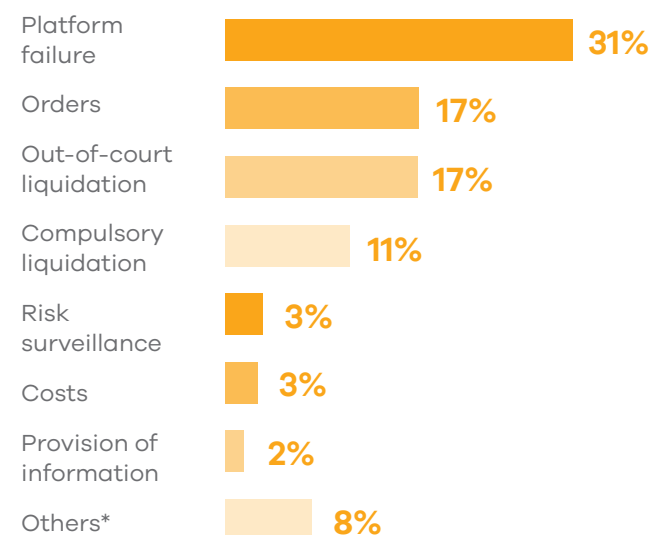
We manage the Investor Compensation Mechanism, which aims to secure compensation for investors for losses incurred from the actions or omissions of exchange market participants.

Since 2018 we have observed an expressive increase to the MRP cases brought. This results from the implementation at the end of 2018 of an entirely digital platform for the investor to submit complaints, to a substantial increase to the number of individuals investing in the exchange, the electronification of the market and the decree of out-of-court liquidation of brokerage houses by the Central Bank of Brazil.

GRAPH 3 | Complaints received in the MRP



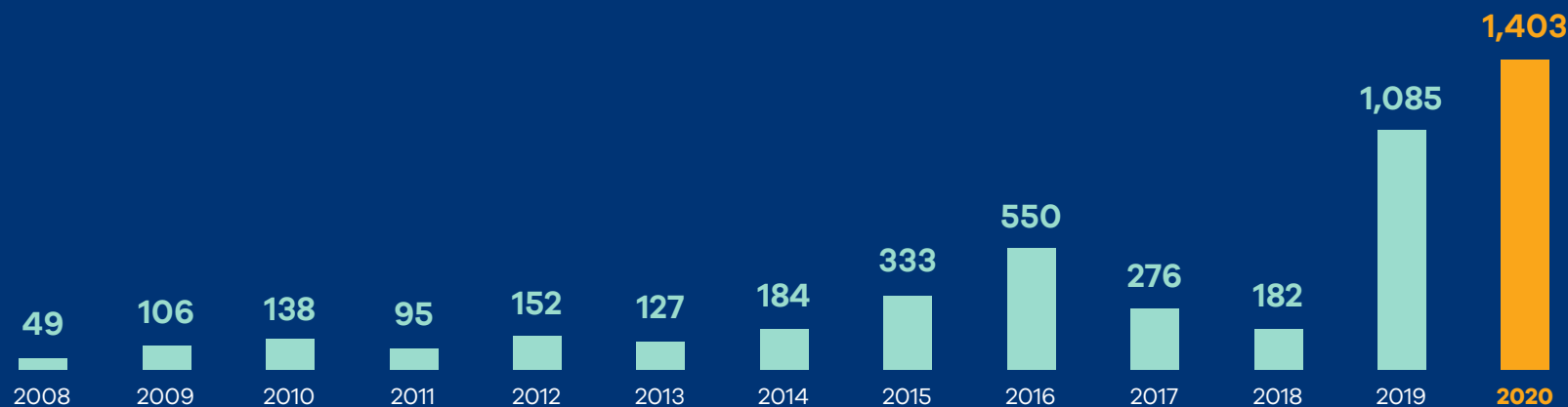
GRAPH 4 | Subjects of complaints received in 2020



* Other: irregular portfolio management, churning, suitability, execution of collateral, custody, self-employed investment agent and/or trader activity.

To meet this growing demand, we have invested in process enhancements, data intelligence and the consolidation of tests used for decision making, which has resulted the largest number of completed cases in the history of BSM.

GRAPH 5 | MRP – Cases Concluded by BSM



In 2020, we paid 595 compensations to investors, totaling BRL 7,614,509,21.

TABLE 4 | Compensations paid since 2012 (BRL thou)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	Past 9 years
Compensated values	1,355	438	1,136	4,906	7,220	2,666	2,244	13,318	7,615	40,898

Note: not included in the total are cases judged partially valid, whose complainants have appealed to CVM and whose complaints are still pending assessment by the authority.

Update to the model for calculation of the minimum equity value of the MRP

On December 31, 2020, the MRP had net equity of BRL 354.9 million, which was formed over the years by contributions from participants and B3.

In 2010, we developed, together with FGV Projetos, a methodology to estimate minimum and maximum equity values that the MRP must hold to guarantee that there is no shortfall of resources for compensations.

This model was enhanced in 2014 for the Central Bank to handle better the risk associated with the out-of-court liquidation of B3 participants.

In 2020, due to the greater

availability of historic data and changes presented at the CVM SDM 9/19 public hearing (which proposed raising the maximum compensation value to BRL 250,000 and broadening the compensation hypotheses in the case of intervention or declaration of out-of-court liquidation by the Central Bank of Brazil, considering the entirety of the amount in balance in the current account, regardless of its origin), reviewing the model with FGV Projetos to encompass new enhancements. The results were presented to the Supervisory Board and the Executive Board of B3 and, in 2021, will be submitted for consideration by the CVM.

Publication of the Investor Compensation Mechanism (MRP)

In the past two years we have seen an increase to the number of individuals investing in B3's markets. In the second half of 2020, B3 conducted a survey to map the profile of these investors and fewer than 15% declared knowledge of the MRP.

Based on this research, in the second half of 2020 we performed communication activities in several vehicles, in particular the promotion of MRP in our 2021 work schedule.

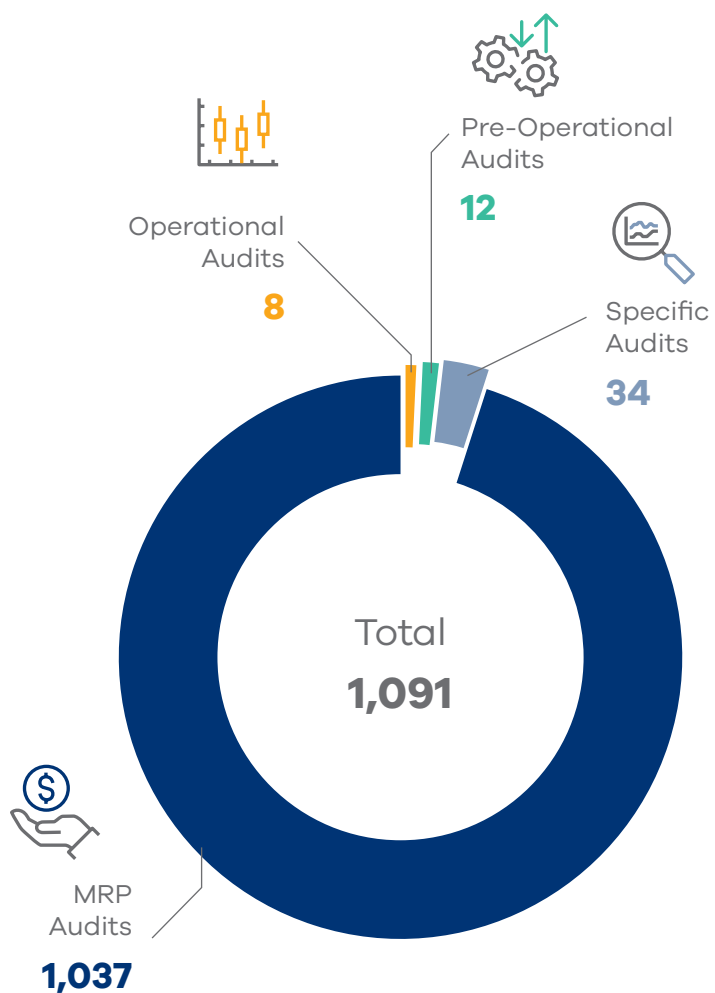


PARTICIPANTS' AUDIT

We are responsible for assessing B3 participants' compliance with the laws, rules and regulations established by the National Monetary Council, the Central Bank of Brazil, the Securities and Exchange Commission of Brazil (CVM) and by B3. The audit types listed below check whether institutions meet financial and equity requirements and have adequate physical and technological infrastructure, and assess the institutions' processes and controls.



GRAPH 6 | Audits in 2020



OPERATIONAL AUDITS

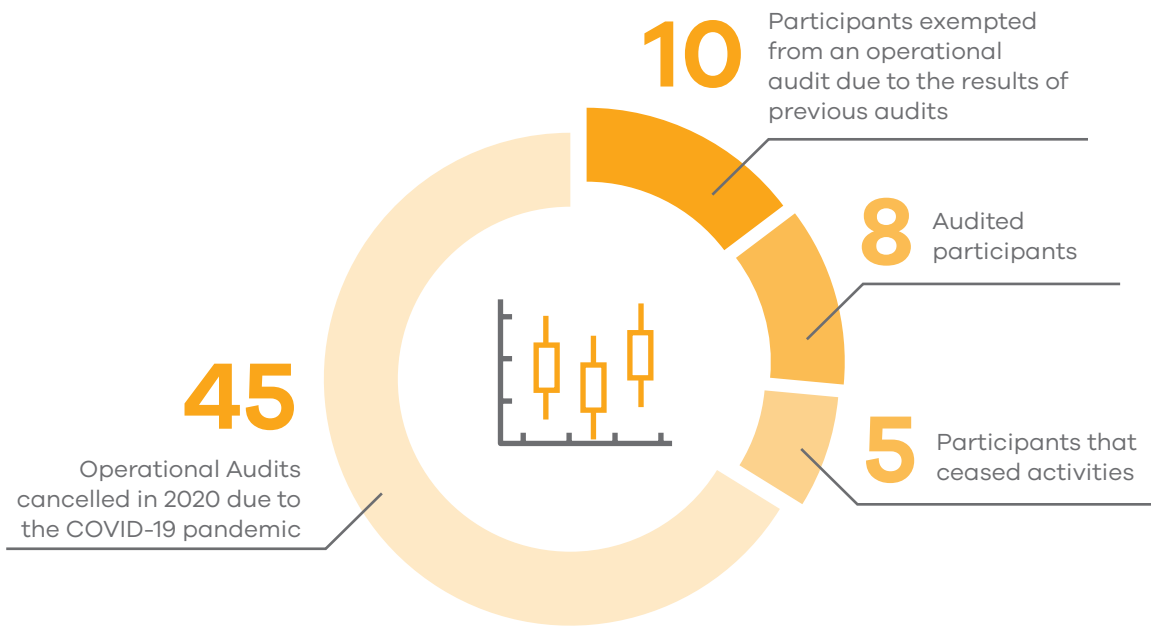
In Operational Audits we assess the participants' physical and technological infrastructure. Our team of auditors investigates and maps out the participants' processes and controls and assesses their existence, sufficiency and effectiveness.

Processes assessed:

- client registration
- suitability
- order receipt, registration and execution
- settlement of transactions
- custody of assets
- money laundering prevention and surveillance of operations
- risk management
- internal controls
- retail liquidity provider (RLP)
- investment club administration
- margin account
- self-employed investment agents
- information security
- business continuity
- surveillance and operating of IT infrastructure
- change management
- infrastructure support

Because of the COVID-19 pandemic and social distancing measures, we put back the Operational Audits that were scheduled as of April. Out of a total of 58 participants scheduled to be audited in 2020, only eight underwent the operational audit process.

GRAPH 7 | Operational Audits in 2020



The audits of the other institutions were cancelled according to the alignment with CVM, which encompassed the need to enhance our operational audit process, which will be resumed in 2021.

With cancellation of the Operational Audits, we have

redirected efforts towards audits related to MRP processes, which allowed more than 1,000 reports to be drawn up to clarify technical aspects of the complaints submitted to the MRP. This redirection of efforts by the audit team was part of the plan of action implemented to reduce the MRP caseload.

Classification of operational audits and enhancements to audit exemptions

Since 2013 we have adopted a methodology to classify operational audit results. This allows participants to follow their individual performance over the years and compare their individual performance against the market. Furthermore, in line with the risk-based surveillance principles, it allows the better classified to be exempted from operational audits in the subsequent periods.

The results classification methodology and audit exemption criteria are available at bsmsupervisao.com.br/auditoria-de-participantes/metodologia-de-avaliacao.

Due to the COVID-19 pandemic and continued social distancing recommendations, we proposed unifying the classification of operational audits to consider the result of audits held in 2019 and 2020. This strategy was discussed in the scope of the Market Advisory Committee and approved by the Supervisory Board and by CVM.

The 2021 operational audits will maintain the scope announced in the 2020 tests program. Tests stemming from the new rules (CVM Instruction 612 and CVM Instruction 617) will be assessed concomitantly with operational audits and will not be considered in the

audit's classification. The eight participants that were audited in 2020 will be assessed in a specific audit in 2021 according to the new requirements, if they do not opt for a new operational audit in 2021.

We will also increase the effective exemption period to a maximum of three years, with the objective of allocating available resources to specific audits and monitoring the implementation of plans of action. With this, considering the principle of risk-based supervision, we will optimize the allocation of surveillance resources and reduce observance cost.

MRP AUDITS HIGHLIGHT

Our audit team may be activated to clarify technical aspects or produce additional information that help towards the best possible decision making.



As described in the specific section about this matter, one of our targets in 2020 was to reduce the ongoing caseload in the MRP. Due to the cancellation of operational audits between April and December, our team concentrated a large part of its resources on drawing up MRP reports, with the purpose of discovering the technical aspects of these complaints or calculate the real value of investors' losses. **In 2020, we drew up 1,037 of these documents.**

INDIRECT AUDITS

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

This type of audit is performed to complement the operational audit and tends to be more efficient as it allows analysis of the entire range of information and not only samples, as normally occurs in the tests held in the operational audits. It also allows a reduction to the observance cost of audit work in the field.

As an example of indirect audits, we checked the **financial and equity requirements** met by B3 participants.

We also monitored **individuals linked** to a participant who may have performed transactions through another, unlinked, participant (which the rules only allow in exception circumstances).

PRE-OPERATIONAL AUDITS

Institutions that want to be participants in the markets operated by B3 must meet a range of operational, technology and financial requirements. BSM performs a pre-operational audit to check whether these requirements have been met.



SPECIFIC AUDITS

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

Examples of this type of audit were those performed to check specific matters such as inspection of private placements and how participants adapted to CVM Instruction 617.

Private placement – CVM Instruction 476/09

As CVM requires, we audited private placements at eight institutions, encompassing the issuers and intermediaries.

The purpose of this work was to check whether: (i) the placements were executed in compliance with CVM Instruction 476 and B3's rules and (ii) the financial flow, collateral registration and management of underlying securities were in accordance with the issuance documentation for the securities (debentures, mortgage-backed or agribusiness securities, and closed-end investment fund shares).

CVM Instruction 617/19 – Risk Based Approach and other aspects

In November, we began to monitor how participants' timetables adapted to CVM Instruction 617/19.

The result of this first assessment of was presented to the market in a webinar held at the start of 2021 and formed the basis of a 2021 monitoring schedule for the rule.

Check out the presentations of [BSM](#) and [CVM](#).



MARKET SURVEILLANCE

A man with short dark hair, a beard, and glasses is smiling. He is wearing a light blue and white vertically striped button-down shirt. He is standing in what appears to be an office or a modern building interior with blurred lights and structures in the background.

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

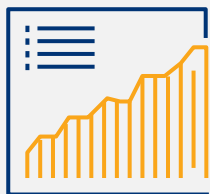
All orders and transactions executed in B3's market are processed by the surveillance systems, which issue alerts in the case of irregularities. These alerts are analyzed by Market Surveillance and if there are signs of irregularities further clarification is requested from the participants, or an investigation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

The Innovation, Efficiency and Productivity section contains more details about the development and enhancement of these alerts.

ANALYSIS OF IRREGULARITIES

We monitor daily for irregularities all orders and transactions executed in B3's markets. Our market surveillance system sends out alerts of any such irregularities and we have a team of mathematicians, statisticians, data scientists and business analysts who develop and enhance models for identifying them.

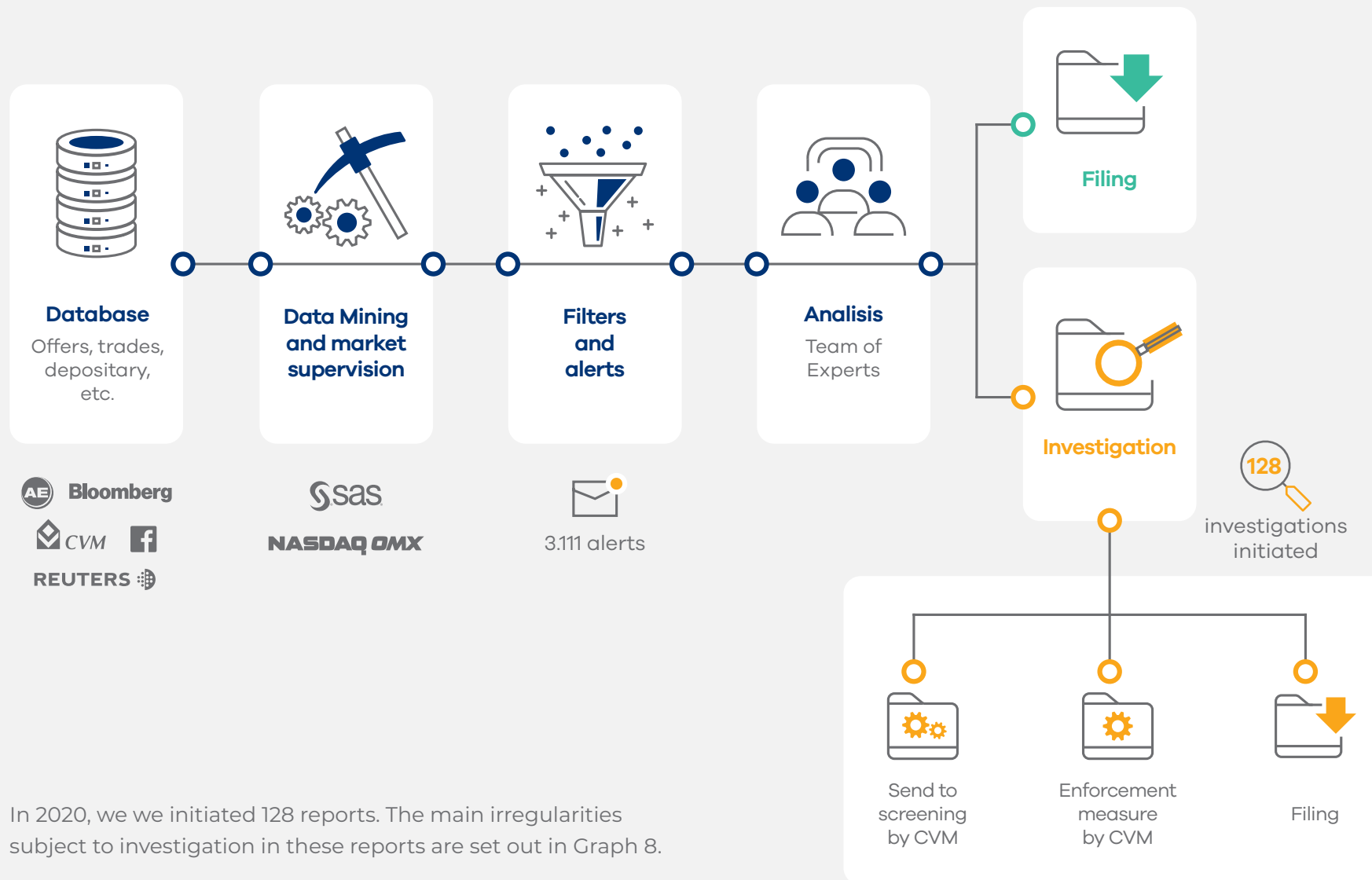
In 2020 our surveillance systems generated 3,111 alerts. All the alerts are analyzed by the Market Surveillance team and if there are signs of irregularities additional clarifications are requested from the participants or an investigation is opened.



MARKET OVERSIGHT REPORTS

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

FIGURE 3 | Simplified flowchart of market surveillance activities



In 2020, we we initiated 128 reports. The main irregularities subject to investigation in these reports are set out in Graph 8.

GRAPH 8 | Initiated report subjects in 2020

Of the 128 reports opened, 46 originated from complaints, which shows the importance of this channel as a source of information.

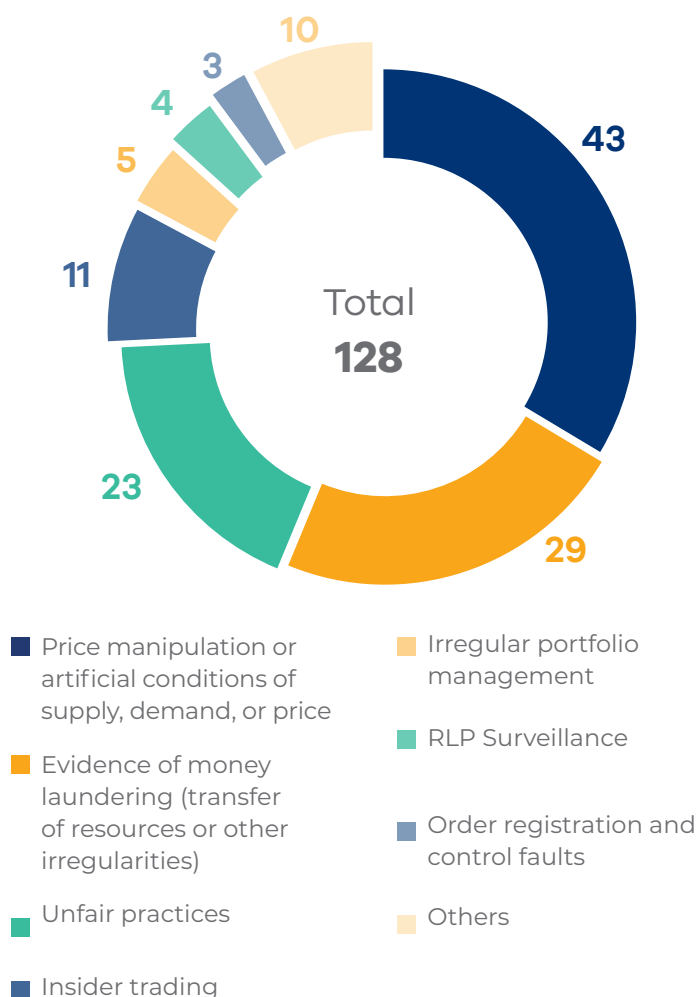


TABLE 5 | Investigations initiated, completed and ongoing in 2020

Investigations	No.
Initial caseload (Reports ongoing on January 1, 2020)	171
(+) Initiated reports	128
(-) Reports dismissed	(95)
(-) Cases submitted for CVM treatment	(67)
(-) Reports forwarded for enforcement measures	(3)
Final caseload (reports ongoing on December 31, 2020)	134

In 2020 we completed 165 investigations. Some cases are submitted directly to the CVM. These are situations where investigations suggest irregularities committed by individuals or institutions that are not within BSM's remit. This is when they are not B3 participants (or their employees or proxies) or when CVM is understood to have more tools to conduct investigations due to cooperation agreements with the Public Attorney's Office and the Federal Police.

SUPERVISION OF B3' SELF-LISTING

We are responsible for the analysis of transactions with securities issued by B3, as set forth in Art. 58 of CVM Instruction 461/07. We thus guarantee that the general rules that must be obeyed by all issuers are also obeyed by B3, as issuer of shares and other securities traded in its environment (self-listing).

SUPERVISION OF SELF-TRADE

In 2020, B3 and BSM, after interactions with participants and CVM, published rules about self-trade during auctions (Circular Letter 0033/2020-PRE, dated Mar. 17, 2020, Circular Letter 0082/2020-PRE, dated Jun. 30, 2020, External Communication 2664/2020-BSM, dated Aug. 14, 2020).

According to the new rules, intentional self-trade during auctions are divided into the categories of regular and irregular. The rules also establish six-month assessment periods for the surveillance of irregularities and recurrent practices by B3, BSM and CVM, jointly.



During the period of August to December 2020 we carried out educational supervision, involving participant interaction, to explain the new rules and procedures.

As of 2021, market professionals and investors' recurring irregular self-trade will become an enforcement matter in accordance with the rules presented to the market via circular letter and webinar.



RETAIL LIQUIDITY PROVIDER (RLP)

In August 2019, CVM authorized the use of a new type of order in the exchange markets, named Retail Liquidity Provider (RLP), which allows the participant to be counterparty to the buy and sell orders of its retail clients.

It is hoped that in this way there will be increased asset liquidity without harming the price formation process and with the guarantee to the retail client that the price of the transaction will always be the same or better than the price available in the B3 order book.

The CVM approved the RLP orders in an experimental character for 12 months and, initially, only for mini index and mini U.S. Dollar futures transactions. In August 2020, CVM decided to extend the experimental period for another 12 months.

Participants that wish to provide their clients with the new order type must comply with certain controls that B3 and BSM will monitor.



RLP Supervision

We look out for signs of orders being artificially being held back in participants' order management systems and monitor for abusive practices. We send CVM a monthly report on the results of this surveillance.



RLP Audit

Our audit also assesses some other aspects relative to RLP orders, such as: communication of the service to the clients, monitoring of order limits, authorization and discontinuation of clients' RLP use, and suitability. In 2020 we audited 15 participants that used the RLP order.

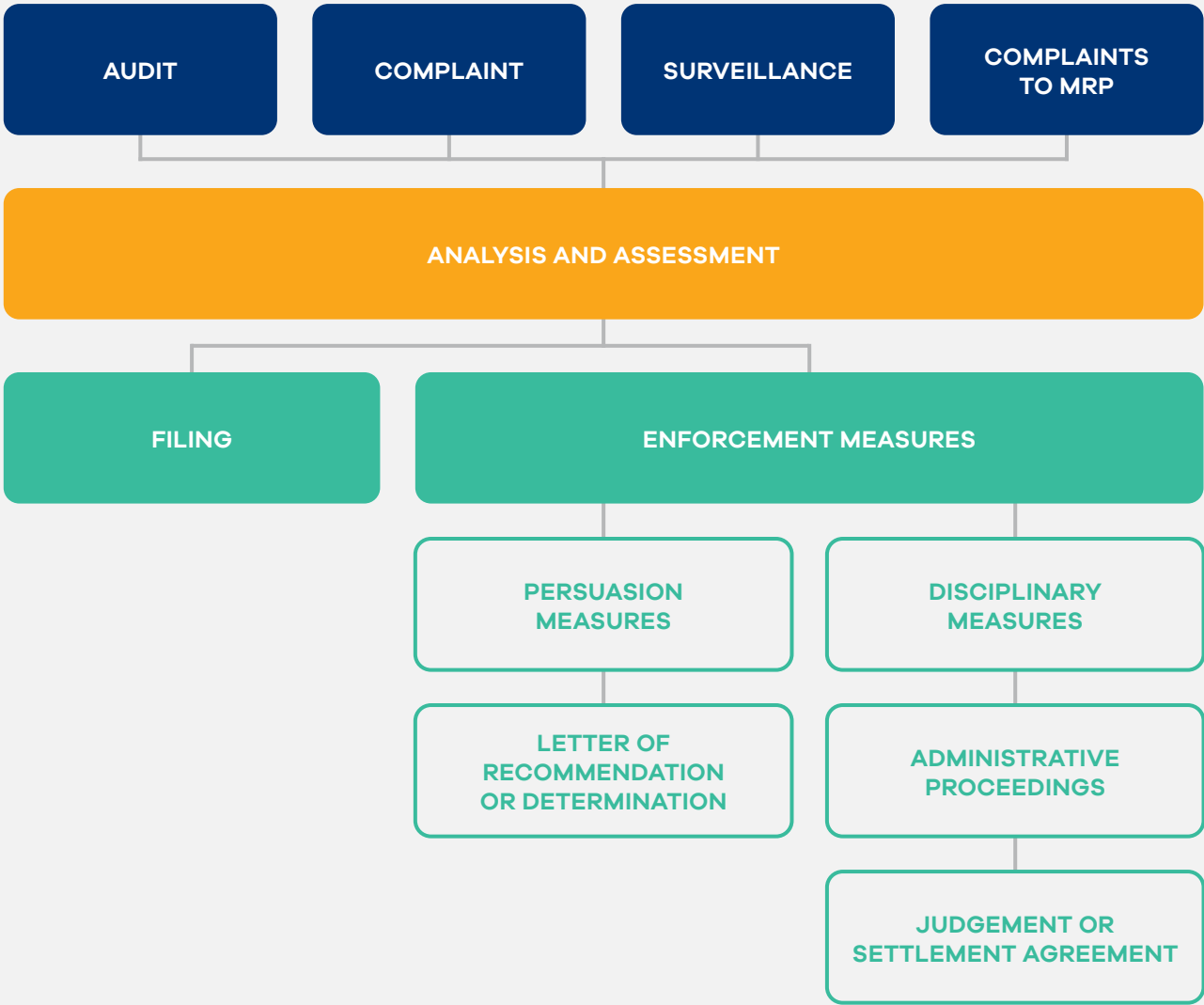
ENFORCEMENT

A man with short dark hair and a slight smile, wearing a dark blue V-neck sweater with a white and red argyle pattern over a light blue collared shirt. He has his arms crossed and is wearing a black watch on his left wrist. The background is a blurred office interior with warm lighting.

In our work we guide the market as we believe proximity and collaboration create a favorable environment for market integrity. We always favor education and when necessary persuasion or disciplinary measures when dealing with the irregularities and infractions committed by participants and their proxies. This governance activity, known as enforcement, seeks to improve participants' standard of conduct and encourage the adoption of appropriate internal controls.

The irregularities identified in our market surveillance and audit activities, as well as in the complaints received by the MRB and the complaints sent to our Complaints Channel, may result in enforcement cases being brought. These range from recommendations that the participant improve processes and controls, to bringing Disciplinary Administrative Proceedings (PAD) that could result in BSM penalizing B3 participants and their proxies. The rules and applicable penalties regarding this activity are available in our Procedural Regulation and in the Corporate Bylaws, which are available on the website.

FIGURE 4 | Schematic diagram of enforcement activity



LETTERS OF RECOMMENDATION AND LETTERS OF DETERMINATION

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

In these letters, we guide the participant towards improving determined conduct, rules, procedures, and/or internal controls. Depending on the situation, we can also determine the adoption of a plan of action to improve the points singled out in the letter and request the participant designate the measures to be adopted and the respective timeframe for implementation.

DISCIPLINARY ADMINISTRATIVE PROCEEDINGS (PAD)

Depending on the seriousness of the identified irregularity we may bring Disciplinary Administrative Proceedings against the B3 participants, their employees and proxies. The PAD may result in the following penalties:

	Warnings
	Fines
	Suspensions of up to 90 days
	Temporary disqualifications of up to ten years
	Other penalties provided for in b3's regulatory and operating rules

These administrative proceedings observe constitutional procedural principles such as the right to a fair hearing and a full defense and are conducted in accordance with BSM's Procedural Rules, which are approved by the Securities and Exchange Commission of Brazil and available on our website.

See the BSM Procedural Rules at bsmsupervisao.com.br, Legislação e Regulamentação, Leis, Normas e Regras, BSM, Regulamento Processual.

The Settlement Agreement is accepted within the PAD and it can also be entered into during BSM's investigation into irregularities. The Supervisory Board analyses the Settlement Agreement's proposals and may accept them, reject them, or make them conditional, bearing in mind opportunity and convenience, the nature and seriousness of the analyzed infractions, the defendant's record, and economy of procedure.

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

FIGURE 5 | PADs completed in 2020



Furthermore, 11 Settlement Agreements were signed before cases were brought.

INNOVATION, EFFICIENCY AND PRODUCTIVITY

We have a team of mathematicians, statisticians and data and computer scientists dedicated to generating information and indicators for all BSM's areas. This team is also responsible for the development, maintenance and continuous enhancement of market surveillance alerts, and for generating samples for audits.



Information management and data engineering technicians ensure the efficient performance of activities such as gathering samples for audits and creating and enhancing alerts for the surveillance of operations.

Data mining technologies, data base management and the application of business intelligence techniques and tools help create management dashboards and indices. Our team also develops activity control tools to increase the efficiency and productivity of our many undertakings.

All this contributes towards more assertive activity and a reduced market surveillance cost.

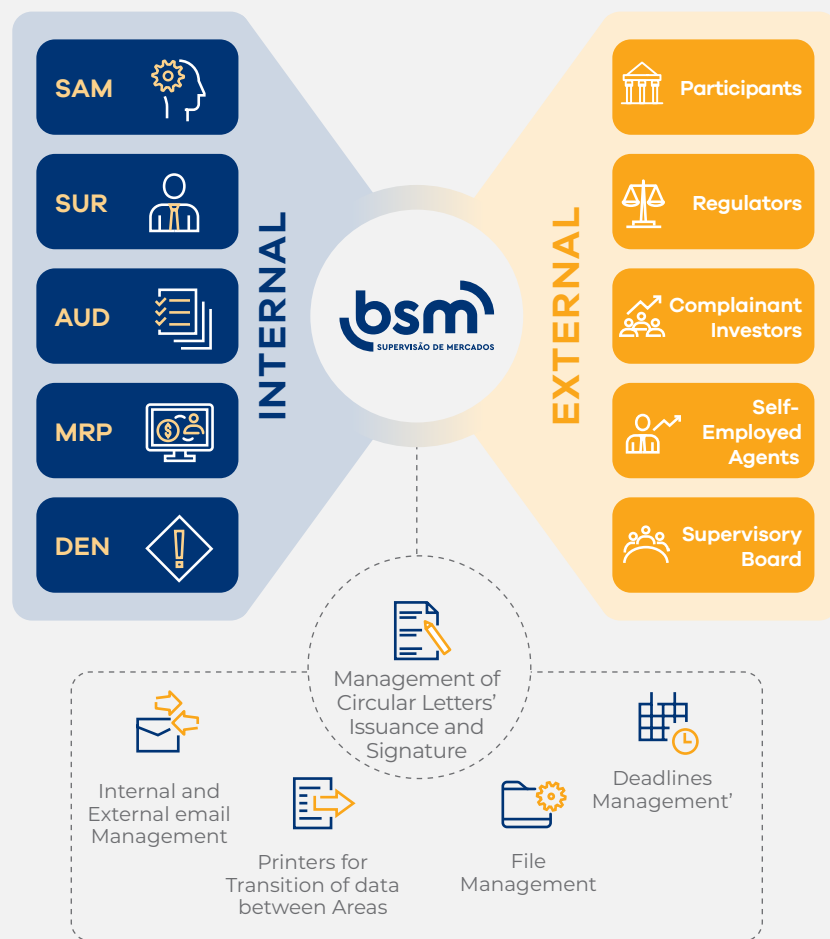
PROJECT HIGHLIGHTS OF 2020

Workflow management and electronic management of documents platform

We contracted a partner and began development of a new workflow and electronic management of documents system. The new platform will provide greater integration between the flows of all our activities, resulting in efficiency and productivity gains.

Modules were initially developed to manage audit and Supervisory Board activities, both at the test phase. We also began developing a module to manage market oversight activities, which should be implemented in the first half of 2021. Finally, we developed a services portal, which will be the communication interface with all our publics (participants, investors and regulators) for the exchange information and files.

FIGURE 6 | Schematic diagram of the new tool for managing activity and documents



Broadening the scope of alerts shared with the market

We continued to develop alerts with the objective of broadening shared PML/CFT alerts in particular, which encompass the situations foreseen in items “d” and “e”, subparagraph I, and items “b” and “e”, subparagraph II, of Art. 20 of CVM Instruction 617/19 (formerly subparagraphs I, III and VI of Art. 6 of CVM Instruction 301/99).

The alerts were developed in collaboration with a group of participants, who helped draw up parameters and assess the quality of generated alerts. We are working on final adjustments to new alerts sharing, which is forecast to start in the first half of 2021.

As is usual, before sharing we will hold a webinar to discuss the metric's details and workings; the submission of investors' financial capacity information necessary for the management of alerts relative to subparagraph I; and the impacts on BSM's audit procedures, such as meeting the requirements for the monitoring and supervision of transactions.

New alerts to detect market manipulation

In 2020, we concluded the studies phase and the definition of the ramping and price driver alerts that will be used in drawing up filters for detecting irregularities in price, volume and quality of assets traded.

Ramping: identifies atypical intraday price fluctuations in which a correlation of macroeconomic market factors is lacking. The objective is to identify cycles that involve clients participating in transactions that are about to experience financially beneficial price fluctuations, known as front running.

Price Driver: identifies atypical price fluctuations, in a determined space of time, in which a correlation of market macroeconomic factors is lacking. The objective is to identify situations that involve the participation of clients in transactions with price fluctuations executed to generate financial benefit through increasing custody value, in forward positions, or to prevent the asset becoming a penny stock.

The new alerts will come into production in the first quarter of 2021.

Development of alert filters in partnership with CVM

Development of filters with CVM, among which: insider one shot, jump, day trades with significant results.

Social media data mining for surveillance of abusive practices

We began a study with the Electronic Trading Department and other B3 areas, for the implementation of an information surveillance tool, including information on blogs, internet discussion forums and social networks.

This is so that we can monitor the information that circulates in these environments to identify possible frauds or abusive practices such as pump and dump, trash and cash and front running.

The study will continue in 2021.

Investment in people and efficiency gain

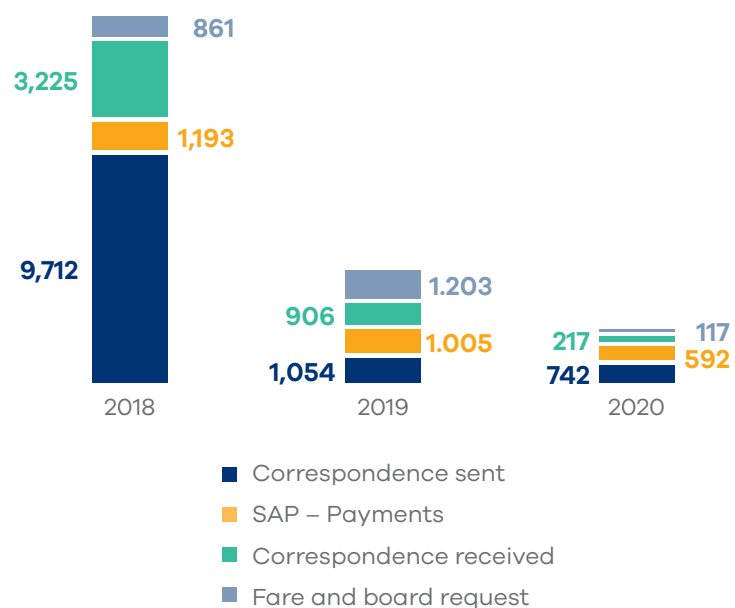
So that we are always ready for changes and in line with the latest technology, we stimulate training and development actions and encourage the empowerment or our employees.

The result of these actions is a corporate culture centred on operational excellence and the constant search for efficiency, taking advantage of the potentials of individuals.

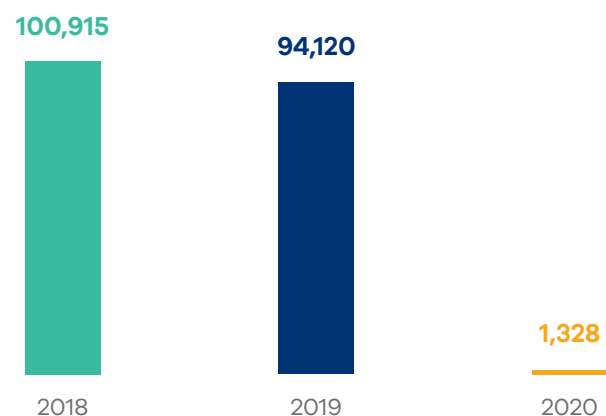
Consequently, we have more motivated people centered on efficiency gains and less red tape:



GRAPH 9 | Administrative Activities



GRAPH 10 | Digitalização de documentos



Adjustment to the Data Protection General Law

We have adjusted our operation to the guidelines of the General Law for the Protection of Personal Data -LGPD (Lei 13.709/18) in effect since September 2020.



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