

**International Conference Call  
BM&FBOVESPA  
3<sup>rd</sup> Quarter 2014 Earnings Results  
November 14<sup>th</sup>, 2014**

**Operator:** Good afternoon, ladies and gentlemen, and welcome to the audio conference call about the earnings results of BM&FBOVESPA for the third quarter of 2014.

At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions to participate will be given at that time. If you should require assistance during the call, please press the star key followed by zero (\*0).

As a reminder, this conference is being recorded and broadcasted live via webcast. The replay will be available after the event is concluded.

I would now like to turn the conference over to Mr. Eduardo Guardia, Chief Product and IR Officer of BM&FBOVESPA.

**Mr. Eduardo Guardia:** Thank you. Hello everybody, welcome to BVMF third quarter earnings call. I have with me today our CFO, Daniel Sonder, and our IR officer, Rogério Santana. I'll start with a few highlights and then I will hand over to Rogério, who will walk you through the numbers in more detail.

One of the quarter's main highlight is clearly the increase in volumes compared to the previous quarter. Although total revenue growth came almost flat compared to the 3Q13, we have observed a 15.5% growth over the 2Q14, reflecting recovery in volumes for both the equities and derivatives segments.

In comparison with 3Q13 the BMF Segment average daily volume rose 7.3%, but was offset by the 6.4% fall in the average rate per contract in the same period. For this reason total revenue came flat year-over-year.

In the Bovespa Segment total revenue was 2.5% in comparison with the 3Q13 although average daily trading value was roughly flat year-over-year the increase of 9.9% in market capitalization and the 2.6% margin increase more than compensated the turnover velocity decrease, which reached 66.8% versus the 73.7% in 3Q13.

It is important to emphasize that although the company's total revenue was flat compared to the 3Q13 net revenue was up 2%. It is explained by a 24% reduction

in the PIS and COFINS tax. This was due to a once-and-for-all effect explained by the use of tax credit.

From the operational point of view I would like to highlight our continued effort to keep expenses growing below inflation. Adjusted expenses reached R\$146.8 million in the 3Q14; a 2.3% decrease compared to the 2Q14.

In the nine months till September 2014 adjusted expenses grew 2.5%; significantly below the inflation in the same period.

Concerning the financial results and net income these results were affected by the company's adherence to the tax relief program. As we have already disclosed to you, this tax dispute was related to the deductibility of expenses from Bovespa Holding's IPO, with adherence program the amount under dispute was reduced from 123 million to 69.2 million. This one-off impact was accounted as income tax R\$45 million and as financial expenses R\$18 million.

And these one-off expenses explained the 4.6% reduction in the financial result and the 11.5% reduction in the adjusted net income.

Before I hand over to Rogério, I would like to make three more comments. Firstly, concerning price adjustments and incentives. In September and October we announced a number of actions aiming to improve our pricing structure and incentives.

The price adjustments are set to take effect in 2015 and then main measures we announced were: The elimination of fee discounts for DMA (direct market access) in the BMF Segment, and the rebates paid to local lenders in the securities lending market.

Concerning listings, the analysis fee we currently discount from annuities we charge from issuers will no longer be discounted and in addition we will now charge analysis fee for services we provide in connection with tender offers, IPOs and follow-on.

The prices of market data products and services will be adjusted and we are also introducing additional distribution products and services.

We also revised the fees related to custody and depository receipts and, last, but not least, today we announced an important change in the fee structure of the interest rate contracts: We have reduced the fees for contracts with maturity up to 210 days in 44% on average and we have increased the fees of contracts with maturity over 210 days in 35% on average.

The impact of this change in revenue is neutral for the company. Nevertheless, we do believe that the reduction of the contracts with short maturity should result in higher volumes.

Secondly, concerning our strategic projects, on August 18 we implemented the derivative phase of the new integrated clearing house and of our new risk methodology; the CORE (close out risk evaluation).

This integration project creates a unified platform offering greater integration and automated treatment of process combined with capital efficiency for final customers. The delivery of this complex and challenging project was an important achievement for us and for all market participants that were involved in this implementation and which are now benefiting from it.

The first implementation stage has been designed for financial and commodities derivatives in addition to OTC derivatives, such that customers trading in these contracts now have the ability to benefit from our integrated risk management capabilities.

We successfully cut down margin requirements by approximately R\$20 billion without adding any additional risks for investors and market participants. We will now be working on the implementation of the equities module.

My last comment is that the day before yesterday BM&FBOVESPA in S&P Dow Jones Index announced the signing of a memorandum of understanding for the creation and launch of new cobranded equity indexes for the Brazilian market. The new indices will be calculated, published and globally commercialized by S&P Dow Jones.

The idea is to launch new induces based on market factors as dividends, volatility and multi-asset, also based on risk control, value and sectorial indices each based upon established and recognized S&P Dow Jones methodologies.

Any new index will be designed to potentially serve as the basis for investment products based on index. We strongly believe that the agreement also paves the way for a closer relationship between the two sides including expansion into other asset classes, particularly fixed income.

We see this partnership as a very important step towards increasing our opportunities in the development of the Brazilian capital market. This move will improve our ability to launch new products based on the new indices, particularly new ETFs, auction and futures.

Now, I'd like to hand over to Rogério.

**Mr. Rogério Santana:** Thank you Eduardo. I'd like to ask you to move to page number four, where you will find some details on the Bovespa Segment performance.

As you already know, ADTV reached R\$7.3 billion in 3Q14; slightly higher than the third quarter of 2014. This flat volume scenario results from a combination of almost 10% increase in the average market capitalization that was offset by a reduction in the turnover velocity that, as Eduardo mentioned in the first slide, fell from 73.7% one year ago to 66.8% in 3Q14.

Considering that volumes were flat the increase in revenues from the Bovespa Segment was expanding by a 2.6% growth in trading and post-trading margins. This growth reflects a positive mix effect in this quarter where the main changes were: Lower participation of local institutional investors and day traders in the overall volumes – remember that this kind of investors pay lower fees comparing to the average price – combined with higher participation of equity derivatives – that we charge higher fees than average.

As you know, market activities were quite weak in the beginning of this quarter, notably in July when the turnover velocity fell to levels below 6%. Then from mid-August volumes started to improve as we got closer to the elections for president in Brazil.

As a consequence, volumes grew more than 80% over the previous quarter and reached all-time high levels in October.

Moving to slide number five we see information on volumes and prices in the BMF Segment. Here different follow-ups happened and the Bovespa Segment volumes grew, but were offset by reduction in price.

The ADV reached 2.7 million contracts; a 7.3% growth over 3Q13 mainly driven by higher volumes of mini contracts and interest rates in the US Dollar contracts, as you can see on the top left of this slide.

The average RPC fell 6.4% and was impacted by the mix effect with higher participation of lower-priced contracts notably mini contracts and auction coupled with higher participation of day traders in the overall volumes, which also charge lower fees.

Additionally, the Brazilian Real depreciation against the US Dollar in the period negatively impacted the average RPC since around 44% of our revenues in this segment is priced in US Dollars.

Turning the pages like number six, once again, we see how diversified our revenues are, reflecting our fully vertically integrated and diversified business model. There was no significant change in this chart compared to the previous quarter with derivatives market being the main source of revenues for the company and cash equities trading revenues representing close to 6% of total.

Now, I will pass the word towards our CFO Daniel Sonder who will drive you through our expenses and other financial highlights.

**Mr. Daniel Sonder:** Thank you Rogério and Eduardo. I'd like you to ask to move the page 7, please, where we will start detail some of our expenses.

As you can see in the chart expenses, adjusted expenses, which is a proxy for cash expenses, fell 2.3% year-over-year, which we consider a significant result considering that most of our expense lines are typically subjected to contractual or otherwise mandatory adjustments that run slightly above average inflation.

Our largest expense line is personnel representing roughly 50% of the total. Excluding the stock option expenses our adjusted personnel expenses fell 2.2% in comparison with 3Q13; this was driven by, one, a reduction in the pool of bonus expenses for the quarter reflecting a more challenging environment for volumes, second, a higher amount of personnel expenses being capitalized as investments mainly in connection with the implementation of the derivative space of our new integrated clearing house, which occurred in mid-August and, lastly, by some additional adjustments in headcounts, which we executed.

There is a 11.5 year-over-year percent reduction in IT and data processing expenses and that is mainly explained by what happened last year when we saw a slightly higher concentration of these expenses in the third quarter.

Although in the third quarter 2014 we have already seen some additional expenses related to IT maintenance contracts for our new clearing house, it is important to remind you that the full impact of these new recurring maintenance contracts will be fully felt only in the fourth quarter of this year.

Another example that I wanted to point out of efficiency comes from the communication line that fell 30.3% year-over-year. This reflects among other things our efforts in reducing our spending for mailing statements to investors who hold positions in our depository.

We are planning to move to fully electronic mailing system, electronic mailing and SMS system next year.

I also want to explain the significant growth in other expenses from the third quarter last year. This is due to an increase in donations and contributions made by us including the transfer to BSM (our self-regulatory organization) of the fines, which are collected by BM&FBOVESPA from market participants, and also an increase in the contributions to a higher education program, which responds for “*Ciências Sem Fronteira*”.

If you move to the next page, page number eight, I just wanted to emphasize the nine-month performance of adjusted expenses, which in the first nine months till September 2014 grew only 2.5% in comparison to the same period of 2013; significantly below inflation.

As mentioned, most of our expense lines it would grow above average inflation if we did not adopt a very strict expense discipline. You can see in the table that all of our main expense lines are decreasing real terms; reflecting our commitment with expense control and the pursuit of greater efficiency that is part of the culture of this company.

Adjusted expenses in the nine months 2014 reached R\$417 million and in accordance with our expense guidance for the year from 585 million to 595 million we should see some increase in expenses in the fourth quarter of this year vis-à-vis the previous quarter as happened in other years.

This will be the case because we will then in the 4Q have the full impact of wage increases linked to our annual collective bargaining agreement on the personnel line, second we expect to see the increase in current IT expenses from the maintenance of our new clearing house and, third, we will transfer additional resources to fund BSM regulatory activities in 2015, as we did in 2012.

Nevertheless, even considering this foreseen quarter-over-quarter increase our full year 2014 adjusted expenses should grow between 1.6% and 3.3%, again, below inflation.

Finally, on the last page of my segment, which is page 9, you see the financial highlights. You can see on the left side the breakdown of our cash position and financial investments as a central counterparty for the markets we manage; we must and will continue to be a robust and resilient and have a very conservative financial position.

This profile is expressed through our cash and financial investments, however, due to our cash flow generation, which is strong, we are able to at the same time keep that robustness in our balance sheet and yet not compromise our commitment to returning capital to our shareholders.

We have maintained a payout ratio of 80% of accounting net earnings and combined that with an intensive share buyback program that already reached 4.1% of our free float this year.

Finally, just to point out, our financial results were impacted by an increase in financial expenses of 18.1 million, which was connected to the REFIS (the tax program which was mentioned earlier in the presentation).

I'll turn it back to Eduardo Guardia for his closing remarks.

**Mr. Guardia:** Thank you Daniel. If you move on to page 10, we give you an overview of the deadline for the next phase of the clearing house integration, which is the integration of the equities clearing house.

This phase includes the cash market, equities derivatives and securities lending. Our objective is to complete the IT development in this fourth quarter of 2015 and once it is completed we will discuss a detail deadline for the certification and production parallel with market participants and regulators.

It is very important to emphasize that the go-live is subject to the Central Bank approval and readiness of market participants.

Cicero has joined us and I'm sure he will be glad to give you more detail on the clearing house integration process during the Q&A.

Moving on to page 11, we emphasize a very important aspect; the capacity and resilience of our IT infrastructure... (0:19:45 to 0:20:13 audio interruption)...

**Mr. Guardia:** Okay, I apologize that we had a problem with our connection. So I was on page 11 and I was mentioning that we are completing today 486 uninterrupted trading days with the Puma platform.

Concerning the new clearing house less than three months after its launch, we have already handled record volumes in the BMF Segments without any problems. So the message is that the investments in trade and post-trade platforms ensure the resilience of our system in a period of message and trade peaks.

Luis Furtado is also with us to give you more detail on that during the Q&A.

So these were our initial comments. Now we would like to open up the call for your questions. Thank you very much.

### **Q&A Session**

**Operator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press the star key followed by the one key on your touchtone phone. If at any time you would like to remove yourself from the questioning queue press star two.

Our first question comes from Mr. Carlos Macedo, with Goldman Sachs.

**Mr. Macedo:** Thank you. I have a couple of questions. Good afternoon gentlemen. So, first one is regarding the implementation of the clearing house.

When you first launched this a few years ago you were talking about concluding it at the end of 2014 and now we are looking at the end of 2016. Just wondering if there is any chance that this gets delayed given the Central Bank approval process if it can get brought earlier and what the implications would be for Capex in those years, you know, over the next couple of years?

Second, you talked about changes in pricing and new products that you are launching... sorry, changes in prices for the several products that you have including the derivatives side.

I was wondering, you know, this month of November you already have the impact of the higher volumes in October impacting your pricing. On the equity side I was wondering if you are considering – given the outlook for volumes is a little more subdued now given the low market cap – if you have any intension in adjusting the pricing for equities in the next several quarters.

**Mr. Cicero Vieira:** Thank you Carlos. Regarding the first question about the timeline for the integration for CCPs, originally we thought that it could be possible to work in the integration of all CCPs simultaneously and also to test at that with more than 70 brokers that have to connect to the new CCP.

Further we realized that it would be feasible, it wouldn't be realistic to have about 70 brokers testing the integration of the four CCPs simultaneously and the timeframe was adjusted, as you know.

That said, the launch of the first phase in August this year, as Eduardo said, was extremely successful; we had no major IT incidents. We released to the market almost US\$9 billion in collateral deposits.

The second point is that we are very confident that knowing that now we are going to work on the phase 2 that we are going to finalize internal testing and also internal IT development by the end of next year and then the implementation in production environment is going to happen in 2016, and that's really going to rely



on external factors, such as a Central Bank approval and also the testing cycles and process of brokers that have to connect to the CCP.

One aspect, which is very important, is that we can now benefit from the experience acquired during the first phase. So brokers now understand exactly what we mean by production parallel testing, what we mean by the new environments and how this process unfolds over time.

So although we have more accounts in the cash equity CCPs – so the number of trades and the number of accounts is larger, which brings some additional complexity to the new phase – the pass is in non-pass, it is a non-process because we are going to replicate what we have successfully implemented during the phase one.

**Mr. Guardia:** Carlos, concerning our second question... Okay, go ahead.

**Mr. Macedo:** Just a second Eduardo, if you allow me.

**Mr. Guardia:** Sure.

**Mr. Macedo:** Cicero, thank you for your answer. Maybe Eduardo could also help answer this follow-up.

So the Capex range that you have for 2015 is between 190 and R\$220 million given that the development in 2016 will be more... won't be as much development, but rather implementation and waiting for Central Bank to approve and all that.

Would it be realistic to believe, to assume that following this development phase in 2015 the Capex will decline below the levels that you are already guiding for the year, for 2015 and 2016?

**Mr. Guardia:** Yes, it is Carlos. We have already given you the guidance for this year, for next year, as you know Capex is already declining. When you look at the numbers for 2013, 2014 will be below 13, 15 will be below 14 and that's our expectation.

We have known reasons today to revise the guidance, so we expect to see Capex going down and, of course, this guidance is already considering all the investments we have to make in the clearing house integration. So we don't expect to see any change in the guidance. Certainly any material change in the guidance for the next year and Capex will continue to go down. So that's our view.

Going to your second question on pricing, I would say that with the announcement that we made today about the interest rate futures and the announcement we

made last week about the depository fees, I think that the most important changes that we had to announce we have already done that, so we don't expect to see any relevant change in the fee structure going forward, particularly in the equity segment.

We have made a lot of important changes in 2011, 12, 13 in the equities fee structure and we don't expect to see anything in the near future.

**Mr. Macedo:** Thank you Eduardo.

**Operator:** Our next question comes from Mr. Alexandre Spada, with Itaú BBA.

**Mr. Spada:** Hi, good afternoon. I have two questions actually. First one relates to the share buyback program. We can see BVMF is currently below the average buyback price executed year to date, which is R\$10.6 as written in your press release.

Can we assume that at current price level the company will resume a faster execution of its buyback program? And also is there a cash or net cash threshold below which the company would not be willing or capable to continue executing the buyback program?

**Mr. Sonder:** Alexandre, this is Daniel here, thanks for the question. I think that as we have done in the past, we tried to manage that process quite carefully and looking at it periodically also with the support of our board.

Historically we have used the buyback program to be a complement to our dividend policy in terms of returning capital to our shareholders or the capital generated in the company. We don't see at this point any reason for why we should significantly change upwards or downwards our cash position.

So I think that the best way for you to look at this is essentially to look at cash generation for the year, look at how much we have paid in dividends and how much we have purchased and that's kind of how we look at it.

We of course have tried given those restrictions that I mentioned to you or those concepts that I mentioned to you we tried to be a little bit more aggressive when prices are down, as we did in the beginning of the year, but I think that the key message here is that financial robustness is our top number one priority and after that we try to simply returning capital to shareholders in the best way possible.

**Mr. Spada:** Okay, thank you. And if you allow me a second question, could you provide an update on the dispute over the goodwill amortization?

**Mr. Sonder:** Yes. There is really no update since we last spoke to you guys. We have, as you know, appealed the decision from late last year to the same first level chamber of the CARF to the appeal border and tax authority, we haven't been heard yet and we might be heard next month again or the following.

Every month there is the expectation that might be heard. So we haven't gotten any news for you except that we are still in the same stage that we were before.

**Mr. Spada:** Okay, thank you.

**Operator:** Ladies and gentlemen, as a reminder, if you would like to pose a question, please, press start one.

This concludes today's question-and-answer session. I'd like to invite Mr. Eduardo Guardia to proceed with his closing statements.

**Mr. Guardia:** Thank you. I just want to thank you again for joining us today. Should you have any other question, please, do not hesitate to contact us. Thank you very much.

**Operator:** That does conclude the BM&FBOVESPA audio conference for today. Thank you very much for your participation and have a good day.