International Conference Call
BM&FBOVESPA
2nd Quarter 2014 Earnings Results
August 8th, 2014

Operator: Good morning, ladies and gentlemen, and welcome to the audio conference call about the earnings results of BM&FBOVESPA for the second 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. Good morning everyone and thank you for joining us in this call today.

I have with me our CFO, Daniel Sonder, and our Investor Relations Officer, Rogério Santana.

I will start with a few highlights about the quarter then I will hand over to Rogerio and Daniel, who will walk you through the numbers in more detail.

Before going to the numbers, I would like to give you some important information: First, we are very happy that yesterday the Central Bank of Brazil has approved our new clearinghouse.

We are extremely happy, this is a very important step for us; with his approval that we got yesterday we will be able to migrate the derivatives clearinghouse to the new one on August 18, in accordance to our schedule.

This is a very important piece of information not only for the company, but for the market given the importance of this project, so I will make a few comments on that later on in this presentation.

The second important piece of information is that CVM has approved the day before yesterday the new access model for brokers. This is also very important.

Until this week we only had one type of broker – that we could call the full broker – and now CVM has allowed us to have a new type of broker – that we can call the "introducing broker" – so this is important because this "introducing brokers" will be able to use the full broker infrastructure to operate and they will keep the relationship with clients.

This is important because we believe that this new access model will be an important contribution to reduce the industry cost, so the brokers' cost, particularly the introducing brokers cost could be reduced because they will be able and allowed to use the full broker infrastructure.

So this is another important news for us.

The last one is that, as you know, in June the Federal Government has approved the tax exemption on capital gains for investors that purchased shares of eligible SMEs companies. So this was the measure that was pending for us in the set of measures we had to develop the access market in Brazil. So we had three important news from regulators: one from Central Bank, one from CVM and one from the Ministry of Finance.

So these are important aspects that I would like to highlight.

Now, moving on to the numbers, in the second quarter, as you know, revenue did not have a good performance; this shouldn't be a surprise for you as we disclosed volumes on a daily basis, so you have a very good view on revenues before earnings come out.

I think a few aspects are important to have in mind before analyzing revenues in this quarter, particularly when you compare to the second quarter of 2013: first, we had fewer trading sessions, actually, we had 63 in the 2Q13 compared to 60 this last quarter; second, the 2Q13 was the all-time high volumes in both segments, as you know; and last, but not least, we had the World Cup affecting volumes.

As a matter of fact, if you consider that World Cup period ADTV was around R$5 billion compared to R$6.7 billion on average for the second quarter. So although we just had two weeks during the second quarter of the World Cup, but this has affected volumes as well.

Although these facts clearly contributed to explain the reduction in volumes during the quarter, we cannot deny that volumes in both segments are very low, at very low levels and in our view it is reflecting the deterioration in the macroeconomic outlook, particularly the perspectives of lower economic growth.

As Rogerio will explain later on to you, the revenue fall is due to a reduction in volumes as margins in the Bovespa segment were roughly flat, and RPC in the derivatives segment were up 23%. So the reduction in revenues in the quarter is reflecting the reduction in volumes; not in the margins.

Moving on to expenses, adjusted expenses are flat in nominal terms and this clearly reflects the management strong commitment to cost control, Daniel will give you all the details on that, but it's important to emphasize that adjusted expenses are flat compared to the 2Q of 2013.

Financial results were up 38% reflecting higher interest rates as we didn't have any material change in the cash position, adjusted net income down 20% mainly because of the reduction in revenues, and adjusted EPS down 16.8%.

As for dividend payment, yesterday our Board of Directors approved a payout equivalent to 80% of GAAP net income equivalent to R$0.11 per share or R$200 million. The payment will be made on August 29.

So now I would like to hand over to Rogerio.

Mr. Rogerio Santana: Thank you Eduardo and good morning everyone. I would like to ask you all to go to slide number four, where you will find some details of the Bovespa segment performance.

You see that ADTV be reached R$6.7 billion in the 2Q 14, what means an 18.7% decrease year-over-year. As mentioned by Eduardo, lower volatility levels changed the macroeconomic outlook also the World Cup has impacted market activities in the second quarter and also the beginning of the 3Q14.

In this scenario the turnover velocity reached 60.6% compared to more than 80% one year earlier, while the average market cap was roughly flat in the same comparison. When compared to the previous quarter we see a 7.9% growth in the average market cap, what shows the recent recovery in the prices of Brazilian stocks that we've seen in the recent weeks.

And finally, trading and post-trading margins were roughly flat around 5.3 basis points and did not impact revenues in this quarter.

Moving to slide number five, we see information on volumes and prices in the BM&F segments. The 37.9% decrease in the ADTV was partially offset by the high RPC that grew 23.1% in comparison with 2Q14.

The volumes decrease reflects the performance of the two main contracts in this segment: The ADTV of interest rates in Reais fell more than 50% in the period reflecting lower volatility and also decreased market uncertainties about the Central Bank decision on interest rates that would come out in the coming month, and in the case of FX contracts the ADTV fell 11.4%.

Regarding the 23.1% growth in the RPC it reflects the mix effect and the US Dollar appreciation versus the Real. The interest rates in Reais contracts, which have lower prices than average, had its participation in the overall volumes reduced to 53% compared to almost 70% one year ago.

Also volumes of this group of contracts were concentrated in longer maturities pushing their average price up. As you know, in the case of interest rate contracts, the RPC varies according to the maturity of the contracts and the longer the contracts the higher the prices.

In the keys of interest rates in US Dollars and also FX contracts the RPC was positively impacted by the 9.6% US Dollar appreciation versus the Brazilian Real.

Now turning to page to the slide number six, once again, we see how diversified are our revenues reflecting our business model that is fully integrated in diversified and that provide us exposure to varies market, like equities, interest rates, FX, among others.

As happened in the previous quarters, the main contributor to revenues was the derivative market with interest rates in Reais representing more than 16% and revenues from FX futures coupled with interest rates in US Dollars contracts presenting more than 17%.

Another highlight here is that the cash equities trading represented only 5.8% of overall revenues; in line with the numbers we saw in recent quarters that was around 6%.

And now I would like to pass the word to Daniel, who is going to drive you through our expenses and other financial highlights.

Mr. Daniel Sonder: Hello everyone. I ask you to please turn to page 7, where we have our second quarter 2014 expenses description.

We reported adjusted operating expenses of 134.1 million in this quarter with a growth of only 0.7% over the same period in the previous year.

In the comparison with the previous quarter of this year the change was -1.7%.

The company remains absolutely committed to controlling its expenses, seeking to operate our business every time in a more efficient way and also seeking to offset the natural increase is due to the inflation, which we would have in our expense days while maintaining safety and the quality of our activities.

Within the adjusted expenses that grew the main one was IT expenses, which essentially grew because of a new platforms that came online since last year as well as inflation adjustments to some of our IT recurring maintenance contracts.

We also had slightly higher expenses in consulting and third-party services due to some strategic projects and people that we have engaged to help us identify synergies in our business.

On the other hand, we have been able to materialize and gain some importance expense savings related to our communication expense (communication line), which is linked to the statements that we have to send to investors. And over the course of the last few months we have achieved to some important efficiencies by changing the way we do that.

We also were able to have lower discretionary expenses in marketing. The main line of course is our adjusted personnel expenses that are responsible for roughly 60% of total adjusted expenses in the company, that line grew by only 0.2% over the year.

We of course had automatic wage increases in the company, as we do every year, and we were able to offset that with some reductions in our headcount also through profit-sharing scheme that we have for employee compensation and, finally, I slightly higher personnel expense capitalization, which of course is due to some of the ongoing projects that happened in the company.

So we are very pleased to report expenses again growing below average inflation in the first half of this year. We totaled R$270 million of adjusted expenses; a 5.2 growth over the same period of last year.

We reiterate and confirm our guidance to the market of total operating expenses between 595… adjusted operating expenses, pardon me, between 595 and 615 million for 2014.

If you switch briefly to page 8, you will see that we remain a very liquid company, very robust company financially, which is of course our responsibility due to our fiduciary role as the center counterparty in Brazil. The reduction in total cash that you see there is due mainly to the reduction in third-party guarantees that we carry on our balance sheet both on the asset side and in the equivalent amount on the liability side, so it's actually not cash owned by our company.

We executed R$106 million of Capex in the first half of this year, 41.6 of which was in the second quarter. We again reiterate and confirm our guidance for this year and for next year, which you see on the bottom of page 8; we are executing our projects and expect that the second quarter will have a stronger Capex expenditure than this year, but obviously within the range announced.

And finally, related to the payout and the share buyback, as Eduardo mentioned in the beginning, our Board approved yesterday 80% of net accounting profits distribution and this will be paid out on August 29 to the amount of R$200 million, we are also continuing to have our share buyback outstanding and we have purchased 30.2 million shares of the company so far this year.

Mr. Guardia: Thank you Daniel. If we move to page 9, we try to give you an overview of what we are doing this year in terms of product development.

As you all know, the clearinghouse integration and the new risk model is by far the most important initiative for this year, but we believe it's important to show to you that there are a lot of other important things going on in the company at the moment, so we tried to highlight a few of them in this page.

So, starting with the IT infrastructure and the functionalities of the system we have today, I'd like to highlight the rollout of the new trading screen from the cash equities segment. Next year we will is start… we will roll out of the new trading screen for derivatives sector.

We have a ready built our data center now we started the moving to the new data center, there are important initiatives in terms of fixed income, particular in the corporate bonds; we migrate all the trading of corporate bonds to Puma, to our trading platform. To the next stage is to migrate government bonds to Puma as well.

We have new functionalities for market makers, new applications and functionalities for the *Tesouro Direto* with a lot of operational improvement for the securities lending business, which is a very important business for us.

So there is a lot of delivery for the second half of this year related to the IT infrastructure and functionalities of the existing systems.

In terms of new products, we have launched listed and OTC products. This year we had the first international ETF – the S&P 500 – we launched our OTC platform registering time deposits, real estate credit bills and the structured notes, and the next stage is to launch the COE with physical delivery, new types of time deposits, the *Letras Financeiras*, the financial bills and the MDFs with and without CCP.

We are also launching new BDRs, no sponsored BDRs of US and European companies and we have plans to add new market makers for derivatives.

So that's just to give you a sense on all the initiatives we have in terms of products development.

Moving on to page 10, we are all very familiar with the clearinghouse integration, but I just want here to emphasize some of the benefits to the market and to the company of this important project, which is not only a clearinghouse integration, but also the development of a new risk model that will allow us to provide much more capital efficiency for our clients, to improve liquidity management or to provide more operational efficiency to the market, and to reduce operational and IT risks.

So the first phase of the project, as I said in the beginning, is the migration of the derivatives clearinghouse.

Now with that we got the approval from the Central Bank yesterday, we will be able to go live as a scheduled on August 18, next year but will migrate the cash equities clearinghouse, I want to remind you that we have been testing and discussing this new clearinghouse and this new risk model with market participants for a long time, almost 12 months period of intense relationship with market participants testing the new system that will go live this month, and the expected benefits to the market, once again, I would like to emphasize in terms of the expected benefits the capital efficiency.

This capital efficiency is related to the new risk model that will allow us to do the matching between the various contracts with similar risk factors, in other words, futures versus options, futures versus swaps, options with different maturity dates. Today, with the existing risk model we are not able to provide this type of efficiency and we will be able after August 18 when we launch the new integrated clearinghouse.

So we are very happy with this approval and we are very excited with these initiatives.

Moving to page 11, I think you all know that we already got the tax exemption on capital gains for SMEs, but the message here is that we were able to approve several important measures for our company and to the market, so the Federal Government has approved the tax exemption for SMEs, as I said before, we are discussing a proposal to simplify the tax treatment for individuals investors in equities, we believe that this may have a very strong impact on the equities market going forward because it will simplify the income tax treatment to retail investors, so this is a very important initiative.

We got finally the definition of the tax treatment on fixed income ETFs; this was a pending issue for launching this project that we believe will have a very good performance.

Our expectation is to launch of the fixed income ETF in the beginning of next year and we also managed to get a clarification on the tax treatment on dividends and interest on capital related to the sec lending business.

So the message here is that, again, we got several important approvals from the Federal Government in the recent past. So these were the main messages we would like to convey to you and now I would like to open up the call for your questions. Thank you.

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: Good morning gentlemen. Thanks for the opportunity to ask questions. I have a couple of questions. The first one is on your expenses; it came a little bit lower than expected this quarter. You have obviously the seasonality in the second half of the year.

The question is: How much flexibility do you have to manage these expenses? I think you were talking earlier to the press about coming at the low end of the guidance.

Could you come in the lower end of… below the guidance if, for instance, volumes dried up in the end of the year and you wanted to deliver higher profitability? What kind of flexibility do you have given the projects you are carrying out to integrate the clearing platforms and whatnot?

And the second question is: Given that the clearinghouse integration is going forward and they are going live and derivatives in a week or so, is there a timetable for you to open this up for other trading platforms to use this clearing platform? Back to the top of the competition, that has been going back and forth for a while. Thank you.

Mr. Guardia: Carlos, I'll start with the second question then I will hand over to Daniel to talk about expenses, but before answer you, I would just like to let you know that Luis Furtado (our CIO) has just joined us for this call, so if you have more specific questions about IT he will be very glad to answer you and to take your questions.

About the clearinghouse integration, as we said, the first stage is derivatives. We will start the second phase with cash equities after we finish this transition, this migration this month, and we expect to finish the second phase of the clearinghouse integration by the end of next year.

So we will only be able to provide post-trading services to other players when we finish the second phase of the clearinghouse integration scheduled for the end of next year.

Because, remember, what's being discussed at this moment is to provide post-trading services to a new trading platform. So we have to have the new cash equities clearinghouse operational to provide this type of service to possible competitors.

So we are only talking about opening up the clearinghouse when we finish the migration of the equities clearinghouse, probably by the end of the next year.

Mr. Sonder: Carlos, this is Daniel here, thank you for your question. I just wanted to make it very clear that we are reiterating our range from 595 to 615, we are making efforts internally (as we have been in the past) to control over expenses to the extent possible, but this is by very large means a company that has some rigidity in its expense base, as you know, largely personnel expenses that are driven every year by automatic wage increases in the second half of the year, so that is, you know, a reason to expect that we will have higher expenses in the second half of the year compared to the first half of the year.

So, you know, we are trying hard, we are in the discretionary expenses trying harder, but this is not something that we have a lot of flexibility on.

Mr. Macedo: Okay thank you Daniel, thank you Eduardo.

Operator: Our next question comes from Mr. Gustavo Lobo, with BTG Pactual.

Mr. Lobo: Hi Eduardo, Daniel, Rogerio. I have a question on OTC derivatives. We know that under new BS3 rules the risk waiting factor for derivatives without a CCP increased a lot.

I was just wondering if you have already seen an increase in demands from banks for potentially migrating volumes from an operation without a CCP to yourself with a CCP because of that.

And also wondering how you see volumes for your new OTC and fixed income products going forward in the second half? Thanks.

Mr. Guardia: Okay Gustavo, first, it is true; according to the new rules there is a tendency to use more CCP products in OTC derivatives.

It is important to say that today in Brazil we have approximately 80% of the derivative markets in the listed products, so in a way we are different from the rest of the world where most of the derivatives transactions are OTC and will have to migrate to OTC with CCP or to listed products. In Brazil it's already 80% listed.

When you consider the OTC derivatives today I think that roughly 10% of the volumes of the OTC derivatives are with CCP. I agree with you that there will be going forward a tendency to have more OTC derivatives with CCP and that's why the clearinghouse integration is so important for us, because we will not only consider listed products in our new clearinghouse, but also OTC products, and this will is start now on August 18 when we migrate the derivatives clearinghouse that will already be able to concede are the OTC transactions with CCP to copulate the risks.

So this is a huge competitive differential that we have. I think it will happen going forward, but answering your question in a very clear way, we haven't seen yet any higher demand for OTC derivatives with CCP. But I do expect to see it over time.

In terms of volumes for the second half of the year for the OTC product, as I said to you before, to everyone, we are still working on new products that we need to launch to increase our competitive position in the OTC segment and particularly the products that I mentioned to you during my presentation; the COE with physical delivery, new types of time deposit, *Letras Financeiras*, so as long as we have all these products ready to offer to our clients we expects to see volumes peaking up on a more consistent way.

But we had a good start, we are increasing volumes, but we know we need to launch new products to increase our competitive position in this market.

Mr. Lobo: Okay, thanks. Just wondering what would be the sales speech of those products; do you intend to be more aggressive in prices or just to offer products that are not exactly offered by a potential competitor? What exactly is your strategy to gain market share in that?

Mr. Guardia: The strategy is not to be too aggressive in fees. We know we have to have a lower fee because we are the new player in this market, but we don't want to start an aggressive price war; we don't think it makes sense.

So depending on the product we are talking about, if you are talking about COE I think the best sale speech on our side is to differentiate our platform not only with the physical delivery – that something that we will be the only one able to offer to clients – but we do believe we have a very flexible and good platform for structured notes, the COE registration.

So when you talk about COE I think it's possible to differentiate based on the platform that we have, and as we started from scratch we do believe we have a very good platform that will be even better with the physical delivery.

When you talk about time deposits, the strategy is to try to reduce the banks cost, the banks back office cost, and one example I can give you is that our platform is able to identify the final beneficial owner of the time deposit independent of the amount of the time deposits that we are talking about.

So that's one example on how we can help clients to reduce their back office cost. Another aspect that we always emphasize is that we believe we have a very simple fee structure, independent if it is more or how cheap it is, but we believe we have a simple fee structure because we don't charge based on transaction. So we believe that something important to our clients.

So that's the way we will try to differentiate ourselves and, of course, when you talk about… there are two markets here: You have registration of securities and you have the OTC derivatives.

When you talk about the OTC derivatives and if you believe that over time there will be more demand for OTC with CCP, then the biggest competitive advantage we have is the integrated clearinghouse and the capital efficiency we will provide to clients not only by lower collateral requirements and now with the new risk model, but also to be able to provide efficiencies in collateral management. So that's the idea.

Mr. Lobo: Thanks, that's very clear. Thank you.

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

Mr. Spada: Hi gentlemen, good morning and thank you for taking my question. It relates to margins on your equities business. Despite the reduction in equities ADTV on the year-over-year comparison the margin was virtually flat versus the 2Q of 2013.

My understanding is that the comp bases are really adjusted now for the most important adjustments introduced by that new pricing scheme in the equities segment starting in April 2013. That said, I would like to understand why would this not see margins improving over year given the reduction in volume?

Was that caused by mix factors, such as maybe an increase in HFT or day trade versus the 2Q of 2013?

Mr. Guardia: Yes, Alexandre, as you correctly said, the impact of the changes we have made in the fee structure are fully reflected in the numbers now, so you can compare the numbers.

Going forward what will explain reductions or not or increase in margins in the equities business in the mix effect particularly the day trades, not only the high-frequency trades because remembered now we don't differentiate high-frequency traders in the cash equity segment; we provided the discount based on volumes to all day traders. So that's what will drive margins going forward.

Mr. Spada: Okay, thank you. If you allow me a second question…

Mr. Guardia: Sorry… sorry to interrupt. When you talk about the mix effect we will also have to take into consideration the derivatives on single stocks because this business sets a higher margin.

Mr. Spada: That's clear. Thank you. And if you allow me a second question.

Mr. Guardia: Please, go ahead.

Mr. Spada: We feel on a monthly basis when you publish your operating figures that the number of individuals with accounts opened at the exchange keeps falling despite all of your efforts in campaigns to increase the number of accounts for individuals.

So could you provide us an update on your most recent effort to change that trend?

Mr. Guardia: Okay, first, it's very important to have in mind the environment that we are living on and of course it affects our ability to bring new individuals to the exchange.

Having said that there are two aspects I would like to highlight: On the one hand, is that all the initiatives that we have to launch fixed income products and we have the treasury direct and, by the way, if you look to the performance of the treasury direct there was an important increase in revenue this quarter and an important increase in the number of individuals trading *Tesouro Direto*.

If I'm not wrong, the number of individuals has increased 22% compared to the same quarter of 2013, so now we have approximately 114,000 investors in the *Tesouro Direto*. So this is one initiative.

The fixed income ETF is another initiative. I think these products are very appropriate for retail investors and remember that in order to buy these products these retail investors have to have a broker, so they have to open an account in a brokerage house and in many cases this is the first contact they have with the exchange.

If you look to these 110 retail investors that have *Tesouro Direto* today, only 50% of these individuals are trading stocks. So this is what I'm trying to say is a very efficient way to bring new retail investors to our environment.

So this is one initiative: To offer more fixed income products.

The other one is the initiative we launched last year; it's a very important partnership with the brokerage house, we launched an incentive program to help the brokerage houses to bring new retail investors to the exchange.

It's important to say that from our perspective, we are not giving up existing revenues and giving it to the brokers; what we're doing is we will split the future revenue of this new retail investors that will be attracted by the brokers and we will split part of this future revenue with the brokers.

As we have the final beneficial owner model we can monitor the new retail investors that are bringing and that are coming to the exchange. So this is the strategy: The strategy is to work together with the brokers to set up and put in place efficient, rational an incentive programs that will help the brokers to do this job because we believe they can do it in a much more efficient way than we will be able to do.

So instead of trying to attract the clients directly we will work together with the brokers and have efficient incentive programs that make sense for us and for the brokers. So this is the strategy.

Mr. Spada: Can you just update us when is the timing for this program to be fully implemented? I know it has already started; I'm not sure how many brokers are already participating.

Mr. Guardia: The program was launched last year, we have maybe not a precise number, but approximately 30 or 35 brokerage houses that are working together with us in this project.

Since then I'd say most of the new retail investors that have come to the exchange were attracted by companies that are part of this incentive program, but, of course, as I said in the beginning, we know that the environment, the macro environment is not helping at the moment, but it's important to have this program in place to be able to capture the opportunities when they show up.

So the answer is: Almost 30 or 35 brokerage houses in this program.

Mr. Spada: Okay. Thank you very much.

Mr. Guardia: Before the next question, just to let you know that Cicero Vieira, our COO, has joined us. So you do have specific questions about the Core or the clearinghouse integration, sister will be also glad to take them.

Operator: Our next question comes from Mr. Rafael Frade, with Bradesco.

Mr. Frade: Hi, good morning everyone. Just a question about the comment that maybe I missed from Eduardo in his first statement regarding the tax treatment of capital gains on securities lending.

You understand that now it's clear what will be the treatment or you understand that you can you still get better understandings from IRS about this?

And second, there are some arbitrage that market participants do related to this (that seems to have some relevant volumes)?

And if you have any view of if arbitrage is not more possible what could be the potential impact in volumes (If you have any data that you could share with us)?

Mr. Guardia: Okay Rafael, first, what I said is that when you talk about the sec lending business there was some doubts about the treatment on the reimbursement of the dividends paid.

Let me give you an example: I have the stocks, I rent my stocks to you, then there was a dividend payment, you receive this dividend and this dividend is exempt, but when you transfer this dividend back to the owner of the stock (because that's the rule we have today) it was not clear in the current legislation that this transfer from you to me was also exempted, and that's what the revenue service has done with the last provisional measure 651.

They made it very clear that this transfer of the dividends that the borrower received is not subject to tax payment from the lender. So it was not clear before this new provisional measure 651. Now it is very clear, so that's what I was emphasizing. And some clients were not lending these talks because they were afraid of potential tax liabilities with the revenue service. So it was very important.

The second aspect that you mentioned it is true; with the tax treatment we had before it was possible to have some arbitrage because you have some investors that are exempt from interest on own capital and others that are not.

So if you have a bar were that is exempt so this bar were accrued lend and investor that is subject to that tax and they could split this benefit. So this type of operation we saw in the past, everyone knows it was happening.

But that's something that the revenue service said very clearly that they don't want to see it anymore. It may affect volumes? Yes, because we know that there were some transactions that were based on this type of loophole in the tax legislation.

But my clear message to you is that we see a huge potential in this sec lending business and the potential list to bring more foreign investors that are not lending their stocks, to bring the pension funds that are not lending these stocks, there is a huge demand from the borrowers that want to have more access to sec lending, it's important to develop the long and short industry in Brazil, so there is a huge demand from the local asset managers for more offer of stocks in the sec lending business.

So my message clearly is: Although there may have some negative impact because of this transaction, the potential of this business is huge and to have clear tax rules is extremely important to develop the sec lending business. So I'm extremely optimistic with the potential of this business.

Mr. Frade: Okay Eduardo, very clear. Thank you.

Operator: Our next question comes from Mr. Victor Shabbel, with Credit Suisse.

Mr. Shabbel: Hi, good morning everyone. Sorry if this question was already made, but my question would be with regards to the buyback program and the dividends payout ratio.

Earlier this year you guys announced a very aggressive buyback; 100 million shares. The shares price was down close to R$10 or R$9 and now the share price bounces back in likelihood of the shares to get back again to lower levels hopefully is right now much lower.

So the question would be: Can you guys think about increasing the pay out again to 100% instead of the 80% and not really having to carry out the full buyback program with the shares at these levels, which could be seen as less attractive? Thanks.

Mr. Sonder: Thank you Victor, its Daniel here. The dividends level is set out by the Board in each meeting.

Right now they decided to do 80%, as it has been the case. We do not expect to see any changes in that, so I don't think we would expect to see that, however, it is their decision every time to review our financials in each one of the Board meetings.

Mr. Shabbel: Okay, great. Thanks Daniel.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please, press the star key followed by the one key on your touchtone phone now.

Our next question comes from Mr. Domingos Falavinas, with J.P. Morgan.

Mr. Falavinas: Hi, good morning all. Thank you for taking the question. I'm sorry, I also joined a little bit late here in the call in light of the several calls taking place, so I apologize if this has been answered.

I know you mentioned something with regards to a low in the cost in light of Basel III implementation towards the end of the year and more strongly in the upcoming years, and the derivatives that will be cleared will demand lower capital.

And my question is: Have you actually performed a little bit more in detail and in-depth study that you could share with us the risk rated assets, how much would it wait and the difference exactly for the cost of a banking in doing a derivative cleared versus unclear? Thank you.

Mr. Guardia: Domingos, as we said, we agree with Gustavo that there is a tendency of having more OTC derivatives with CCP going forward, but as I said, we haven't seen yet an increase of demand of this type of OTC derivatives with CCP.

The only, let's say, guidance that we provided related to the integrated clearinghouse that will be operational this month is that, on average, we can expect a reduction in collateral requirements around R$20 billion considering only the derivatives clearinghouse.

So we don't have yet specific numbers for OTC derivatives, although we do believe that going forward there will be more demand for OTC derivatives with CCP.

Mr. Falavinas: Understood. And a second question more directionally: We are noticing a worldwide reduction in volumes and I think a lot of it is associated with also some deleveraging from the financial institutions.

Do you also have a feeling regarding how Basel III – not only on this, which the margin may be a positive outcome for you, but – if volumes should stabilize or should even decelerate further from the current scenario?

Mr. Guardia: Cicero would like to take this question.

Mr. Cicero Vieira: So what I think it's important to share with you and investors is that due to Basel III, CCPs and international CCPs in the US, Europe and Brazil will have to be qualified.

The name used by BIS is “qualified CCP” or “QCCP”. If you are considered by the regulator to be a qualified CCP then local banks and international banks that have exposure to you as a CCP they get the minimum possible percentage for capital allocation and this is the risk waited capital allocation.

And for CCPs generally the risk waited capital allocation there is a range from 2% to 150%. Of course, 150% are regards CCPs that have very low risk management standards, which is not the case of BVMF, and we reregistered our application with ESMA, in Europe, a few months ago and we are sure that BVMF is going to be considered a qualified CCP by the European regulators, which means that European banks which trade in Brazil or have affiliates that traded in Brazil they will get the minimum possible capital location ratio, which is 2%, and the same applies to the US.

In the US there is no application process. It's the US process for CCP qualification this decentralized; each US bank has to perform its own analysis and conclude that the CCPs or is not a qualified CCP, and that's why we provided to US banks a self-assessment of BVMF considering the principles defined by the BIS for qualified CCPs.

And we are also sure it's the same in the US and Europe; we are extremely confident that in both jurisdictions we are going to be considered a QCCP.

Mr. Falavinas: Very clear, thank you very much.

Operator: 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 in this call today and if you have any other doubts, please, do not hesitate to contact myself or Rogerio.

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.