

**BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros**  
Brazilian Federal Taxpayer Registry CNPJ No. 09.346.601/0001-25  
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## **NOTICE TO THE MARKET**

### **Open letter to BM&FBOVESPA’s shareholders on binding proposal to CETIP S.A. – Mercados Organizados for a business combination**

**BM&FBOVESPA S.A. – BOLSA DE VALORES, MERCADORIAS E FUTUROS (“BM&FBOVESPA”)**, with reference to the Material Facts released on November 3 and 13, and December 4, 2015, and February 19, 2016, and to the Notices to the Market released on November 4 and 25, and December 4, all within 2015, discloses the following public open letter to its shareholders.

*BM&FBOVESPA disclosed to the market on February 19, 2016 a Material Fact informing that its Board of Directors had approved, at that same day, the submission of a binding proposal to the Board of Directors of CETIP S.A. – Mercados Organizados (“CETIP”) for the combination of the two companies’ businesses.*

*This letter aims at explaining in further detail, from the point of view of BM&FBOVESPA’s Management, what are the main benefits that would result from a combination of BM&FBOVESPA and CETIP’ businesses, considering the perspectives of shareholders, clients and regulators.*

- a) In relation to the shareholders, the combination of activities would significantly enhance the business model of the combined company, to the extent that its revenue base would be even more diversified. There would also be new business development opportunities such as, for instance, the trading of fixed income securities that today are deposited in CETIP’s custody service in the electronic trading platform of BM&FBOVESPA’s; joint efforts for the development of services that support the bank credit activity, especially the ones in the real estate space; as well as the expansion of opportunities for the offering of collateral management and liens and encumbrances services from the combination of the depositaries. Additionally, the combination of activities would generate important expenses and investments (CAPEX) synergies, given the possibility of consolidation of redundant areas, resulting in greater operational efficiency.*
- b) From the clients' point of view, the integration of electronic trading activities, Central Depository for assets and securities and registration of securities systems today separately managed by BM&FBOVESPA and CETIP, would allow (i) the consolidation of back-office process and systems for trading desks, custodians, asset managers and brokerage houses, reducing operating costs and risks for the entire financial system, and (ii) the consolidation of self-regulatory and market supervision activities, would eliminate overlaps and inefficiencies, bringing more efficiency to the interaction of self-regulatory agents with the financial and capital markets*

- supervisors, in a more effective model, at the same time that it would bring significant reduction to regulatory costs incurred by market agents.
- c) *Beyond cost efficiency, the combination of BM&FBOVESPA and CETIP's activities should save financial and capital markets participants, over a period of time, tens of billions of Brazilian Reais in terms of capital allocation required in relation to transactions carried out in the market. This relevant efficiency in the allocation of capital, in its turn, would be translated in a reduction of transaction costs and in a more dynamic and internationally competitive market environment. The reasons that lead to this relevant conclusion are detailed bellow.*
- d) *After the great 2008-2009 international financial crisis, the G-20 leaders met in Pittsburgh, USA, where they undertook the commitment to promote important reforms in the global financial system, aiming at increasing its security and transparency. One of the main G-20 commitments was to make mandatory the settlement of OTC derivatives transactions through a central counterparty, or CCP. After the signing of the agreement, the G-20 member countries gradually began to adopt the legal measures in this direction, highlighting USA (Dodd-Frank Act), Europe (approval of a new law for market infrastructures, "EMIR"), as well as Singapore, Hong Kong, South Korea, Japan, Australia and Mexico.*
- e) *CETIP has a relevant market share in the OTC derivatives registration segment, but these transactions do not count on the guaranty of a CCP. If the Brazilian market decides to follow the guidelines set by G-20 and internationally recognized risk management best practices, in any given moment in the future the guaranty of a CCP will be required to the OTC derivatives registered in CETIP.*
- f) *Therefore, three scenarios could be anticipated: (i) the development of a new CCP by CETIP (demanding years of efforts and relevant investments); (ii) the hiring of services provided by a foreign CCP; and (iii) the usage of BM&FBOVESPA's CCP. As further presented below, alternative "(iii)" is incredibly more efficient in terms of capital allocation and competitiveness of the local financial market.*
- g) *Alternatives "(i)" and "(ii)" would result in the co-existence of two CCPs in Brazil, one for exchange listed products (BM&FBOVESPA) and another for OTC products (CETIP or a foreign CCP approved by the Brazilian Central Bank). Clients with open positions exposed to opposite risks (or partially opposite) registered in different CCPs would be obliged to pledge a much higher amount of collateral due to the fact that there would be no risk offsetting between positions registered in the different CCPs. Additionally, contribution to two settlement funds would also be required.*
- h) *The capital inefficiency created by the co-existence of two CCPs could be in the order of tens of billions of Brazilian Reais. There are concrete evidences on this matter. In August 2014, BM&FBOVESPA implemented its integrated risk system, called "CORE", which allowed risk offsetting among listed and OTC products. Even considering the fact that BM&FBOVESPA has a relatively small market share in the OCT derivatives segment, the introduction of CORE, by allowing risk offsetting of*

*the two classes of products, enabled the release of around R\$20 billion in collateral, while maintaining the same level of security and resiliency of the CCP.*

- i) International markets also seek to obtain higher capital efficiency in the CCP activity. In the USA, the market choose the CCP managed by the Chicago Mercantile Exchange (CME) to settle interest rate swaps due to the possibility of offsetting risks against listed interest rate future contracts offered by CME. Similarly, Eurex Clearing, the CCP owned by Deutsche Borse, also offers risk offsetting between OTC and listed products. According to an article in the Financial Times of February 24, 2016, the main market argument for the recently announced plan to merge the London Stock Exchange (LSE) and Deutsche Börse is exactly the possibility of integration of the risk systems of LSE's CCP, LCH (London Clearinghouse), specialized in OTC products, with Eurex Clearing, which has a larger market share in listed products.*
- j) From the perspective of regulators, it is extremely important to highlight that, if there is no combination of activities between BM&FBOVESPA and CETIP, the existence of two CCPs competing in the same market should create short-term negative economic incentives to relief risk management standards, potentially increasing the systemic risk and bringing new challenges to both regulation and supervision activities. A CCP with reduced margin requirement levels, with softened operational limits and that accepts less liquid collateral could facilitate the entering into new transactions by its clients. In this sense, this CCP should be able to attract higher volumes. To what extent the other CCP, in the imminence of losing revenues, would be compelled to also relief its risk management standards? What would be the effects of this race to the bottom on the systemic risk and on the stability of the Brazilian Payment System (SPB, Sistema de Pagamentos Brasileiro)? And what should be the regulators' reaction? It is reasonable to expect that one single CCP, besides increasing capital efficiency and reducing back-office costs for the entire financial system, should also avoid the race to the bottom and an increase in the systemic risk, reducing the complexity of prudential regulation and supervision activities.*

*Finally, it is worth highlighting that the existence of one single CCP in no sense would create obstacles to the creation of new exchanges or trading platforms to compete in Brazil. In line with statements already publicly made by BM&FBOVESPA in many different moments, the company is prepared to offer CCP services to other equity trading platforms that may be established in Brazil, once authorized by regulators. The consolidation of the Central Securities Depositories of BM&FBOVESPA and CETIP should not create obstacles to the establishment of other exchanges in Brazil either. CVM Instruction 541 forces Central Depositories to offer services to other exchanges or CCPs authorized in Brazil. In fact, in different regions of the world (for example, USA, Japan and Australia) there is only one single CCP and one single Central Depository for the equity market, which offer services for different trading platforms that compete among themselves.*



*We expect this letter has evidenced in a clear and transparent way the view of BM&FBOVESPA's Management on the merits of the transaction that would combine activities with CETIP. The competition among financial and capital markets happens more and more at a global level. We believe that Brazil fulfills the requirements to be positioned as an important financial center in Latin America. We also believe that BM&FBOVESPA and CETIP, together, will contribute unquestionably to the competitiveness, development and resilience of both financial and capital markets in Brazil.*

*Pedro Pullen Parente  
Chairman*

*Edemir Pinto  
CEO*

São Paulo, February 29, 2016

**Daniel Sonder**  
Chief Financial Officer