



**BM&F BOVESPA**

*The New Exchange*



# **AN OVERVIEW OF THE DEMUTUALIZATION PROCESS AND THE BM&FBOVESPA CASE**

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**1****TRENDS SINCE THE 90'S AND THEIR CONSEQUENCES****2****OVERVIEW OF THE EXCHANGE INDUSTRY IN THE WORLD****3****DEMUTUALIZATION PROCESS****4****BM&FBOVESPA CASE**

## Trends since the 90's

**GLOBALIZATION**  
Overseas competition for listing and trading

**TECHNOLOGICAL ADVANCES**  
Algorithms and Program Trading

**CUSTOMER DEMAND**  
Liquidity, trading efficiency, new products and lower costs

**ALTERNATIVE TRADING SYSTEMS**  
Trading through ECNs and internalization of orders

## Consequences

**CONVERGENCY**  
Cash Market and Derivatives in the same stock exchange

**ELETRONIC TRADING PLATAFORMS**  
Replacement of the Open-Outcry trading scheme

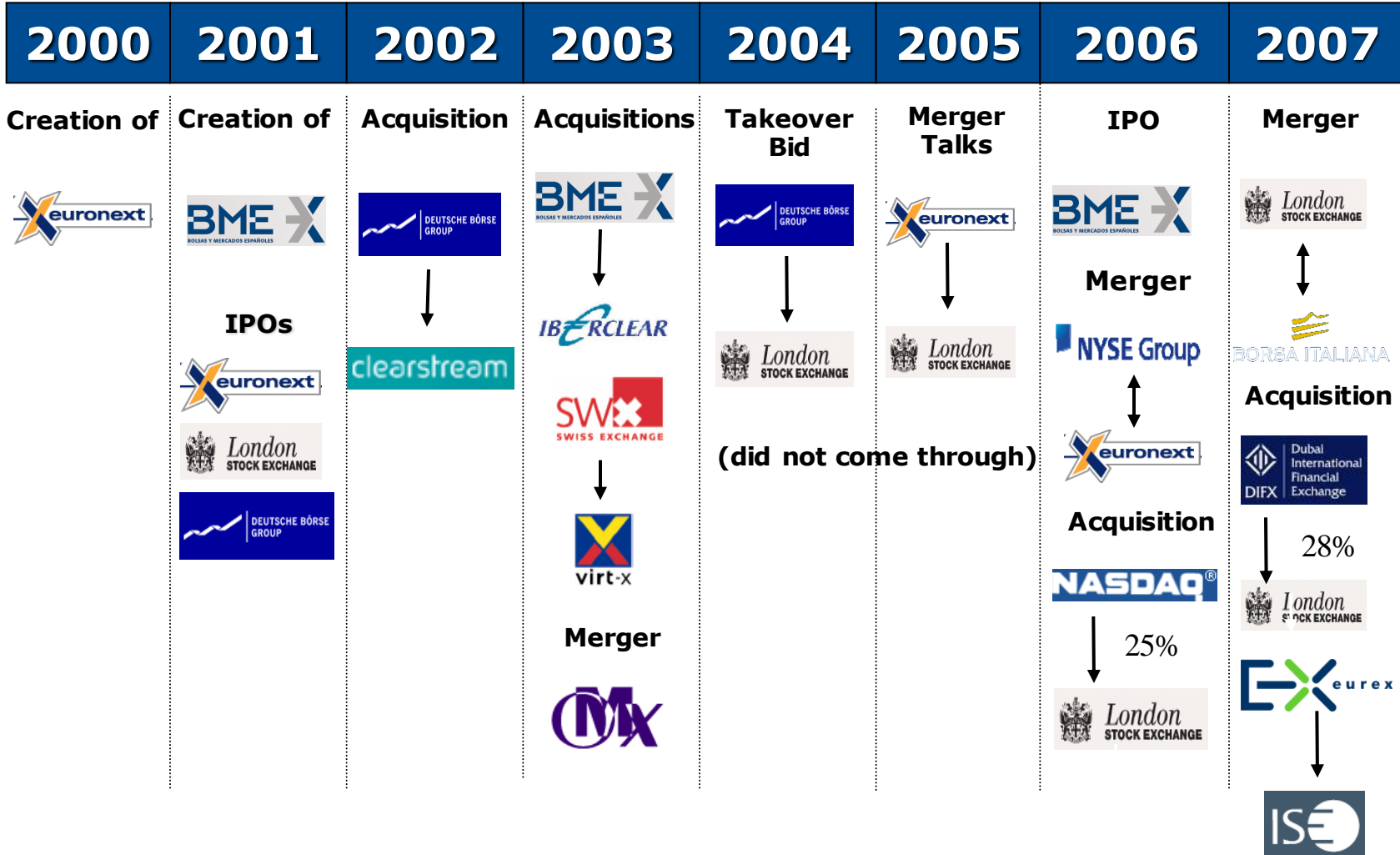
**CONSOLIDATION**  
Challenges valuation expectation anti-trust issues

**REGULATION**  
Potential conflicts jurisdiction and self-regulation

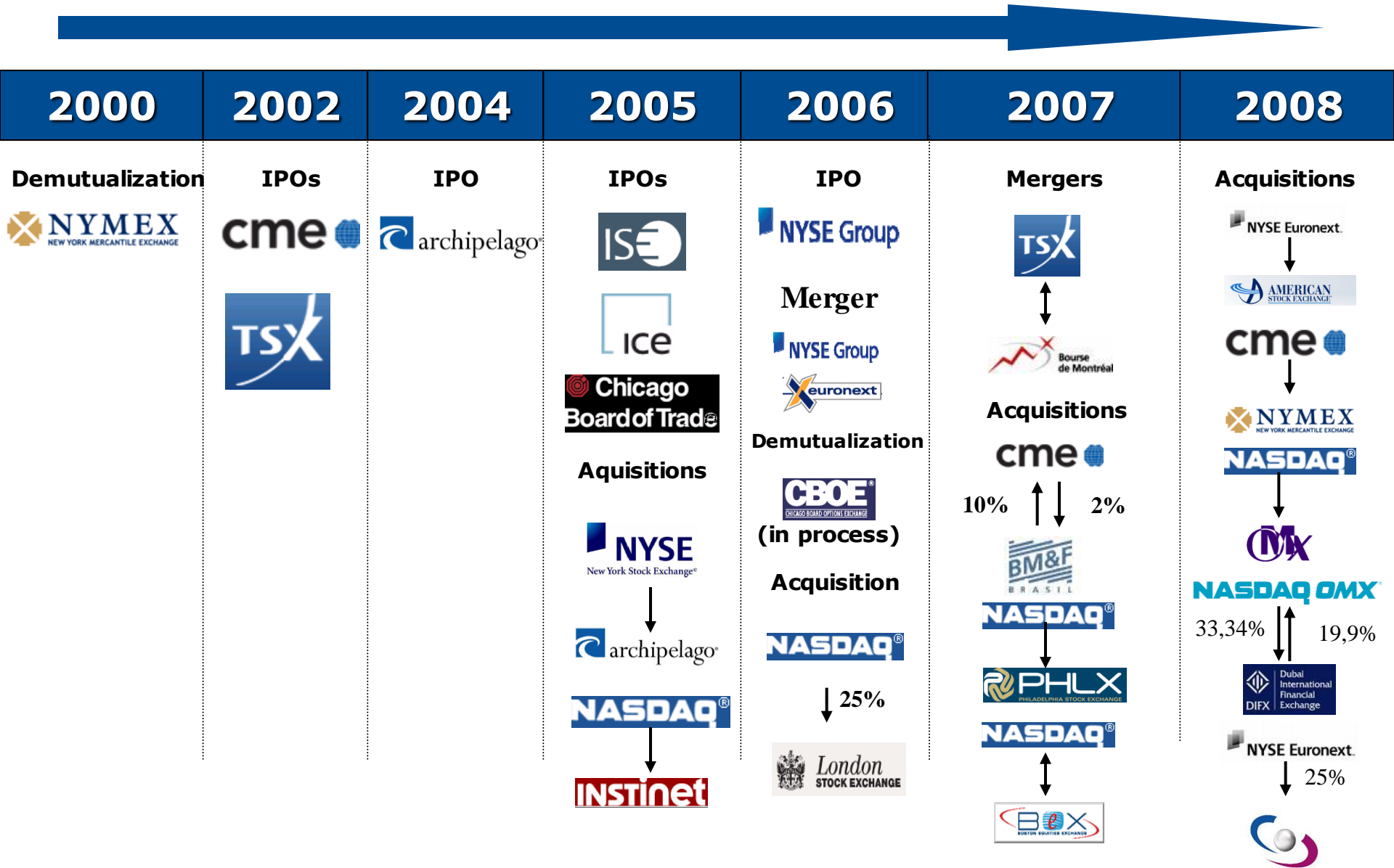
**DEMUTUALIZATION**  
Transparency and strategic flexibility

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# European landscape mergers, demutualization and IPOs



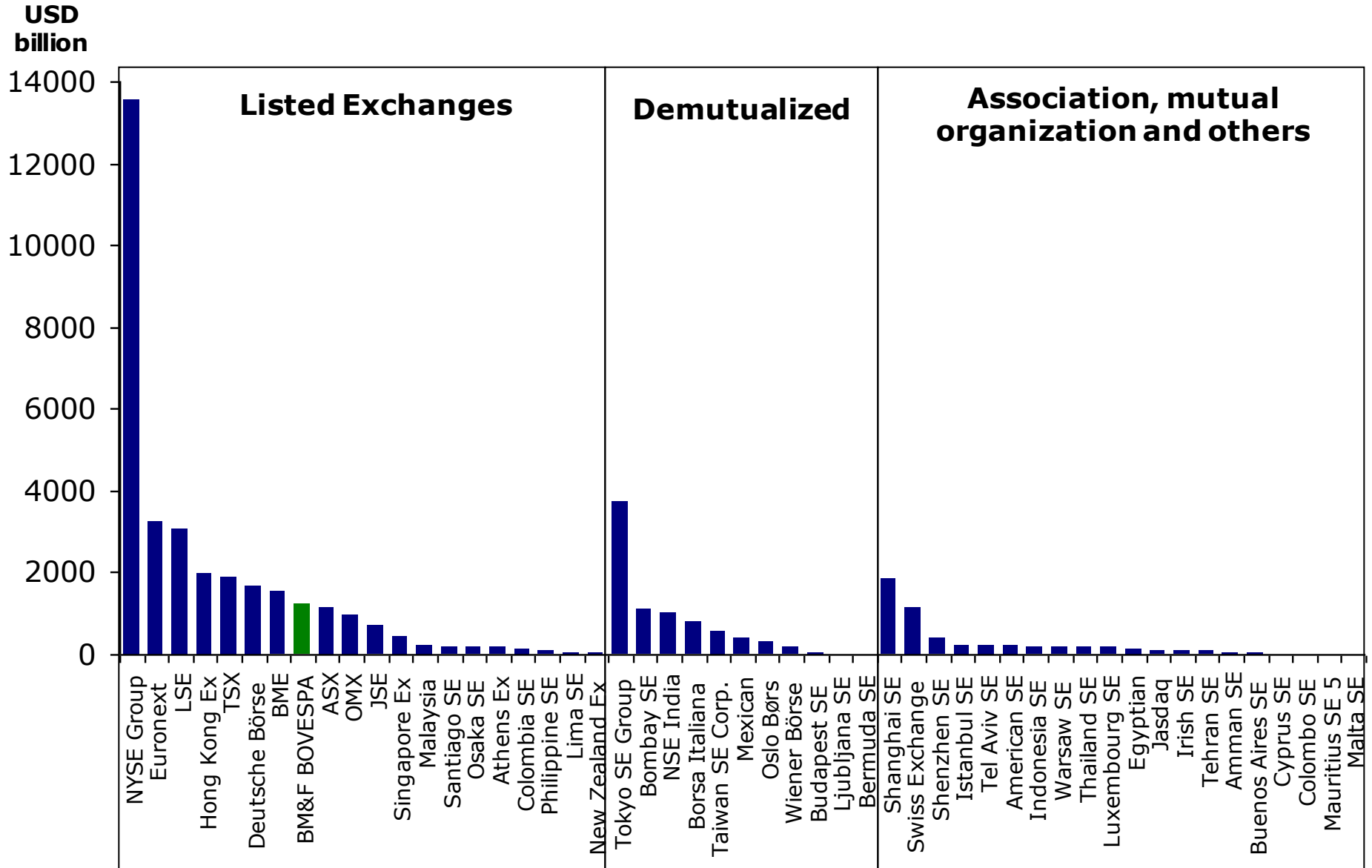
# North-American landscape mergers, demutualization and IPOs





1998	2000	2003	2005	2007	2008
<p><b>IPO</b></p> 	<p><b>IPOs</b></p> 	<p><b>Demutualization</b></p> 	<p><b>IPO</b></p>  <p><b>Demutualization</b></p> 	<p><b>Acquisitions</b></p>  <p>↓ 5%</p>  <p>↓ 5%</p>  <p>↓</p> 	<p><b>Acquisitions</b></p>  <p>↓ 5%</p>  <p>Bombay Stock Exchange Limited</p>  <p>↓ 26%</p> 

# Market capitalization is leveraged in listed exchanges





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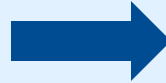
## Exchanges Reasons

- ✓ Higher flexibility and quick response to a dynamic scenario
- ✓ Focus on a competitive and profit-oriented approach

## Members Reasons

- ✓ Liquidity and valorization of the members investments
- ✓ Capital raising to new investments ⇒ modernization and business enhancement

1st stage: Mutual Structure



Non-Mutual Structure

2nd stage: Corporation



Public Corporation (optional)

3rd stage: Listing in the Stock Exchange (optional)

- ✓ Some Stock Exchanges carry out the 3 stages,
- ✓ Others just do the 1st or the 1st and 2nd stages
- ✓ Examples:
  - ✓ Demutualization: Bolsa da Colômbia, Bombay Stock Exchange
  - ✓ Demutualization and IPO: NYSE, Euronext, LSE, BME, BM&FBOVESPA, Bolsa Mexicana de Valores

- ✓ Separation between the “trading access” and the “decision making power”
  - The trading access and the others services provided by the Exchange separated from the ownership of shares
  - The decision-making power now belongs to the shareholders
  
- ✓ Corporate governance reinforcement and strategy
  - For-profit corporation, the management will be more competitive
  - Adoption of a “Business Model”, facilitates strategic alliances
  
- ✓ Regulation
  - Changes in the self-regulation model after the demutualization
  - Jurisdiction conflicts in the merger process

## Trading access Some adopted models

- 1) Issue of trading access licenses
  - Automatically granted to the former owners of the membership certificates
  - Entrance possibility to the new intermediaries, since they are properly qualified for that
    - NYSE
- 2) Issue of shares with different classes
  - Voting right Class
  - Trading access right Class
    - CME and NYMEX

## Regulation Issues in discussion at IOSCO

- ✓ Jurisdictional Conflicts
  - Anti-trust issues and difficulties to conciliate the regulatory regimes and requirements in regional and international mergers
- ✓ Exchange Self-Regulation
  - As a commercial entity and for profit organization, can the Exchange keep satisfactorily its self-regulatory function?

Profits maximization

X

Fair market operating

X

Risk management

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BOVESPA e CBLC announced studies to the demutualization and IPO in June 2006



✓ Demutualization: August 2007

✓ IPO: October 2007



- ✓ Demutualization: October 2007
- ✓ IPO: November 2007

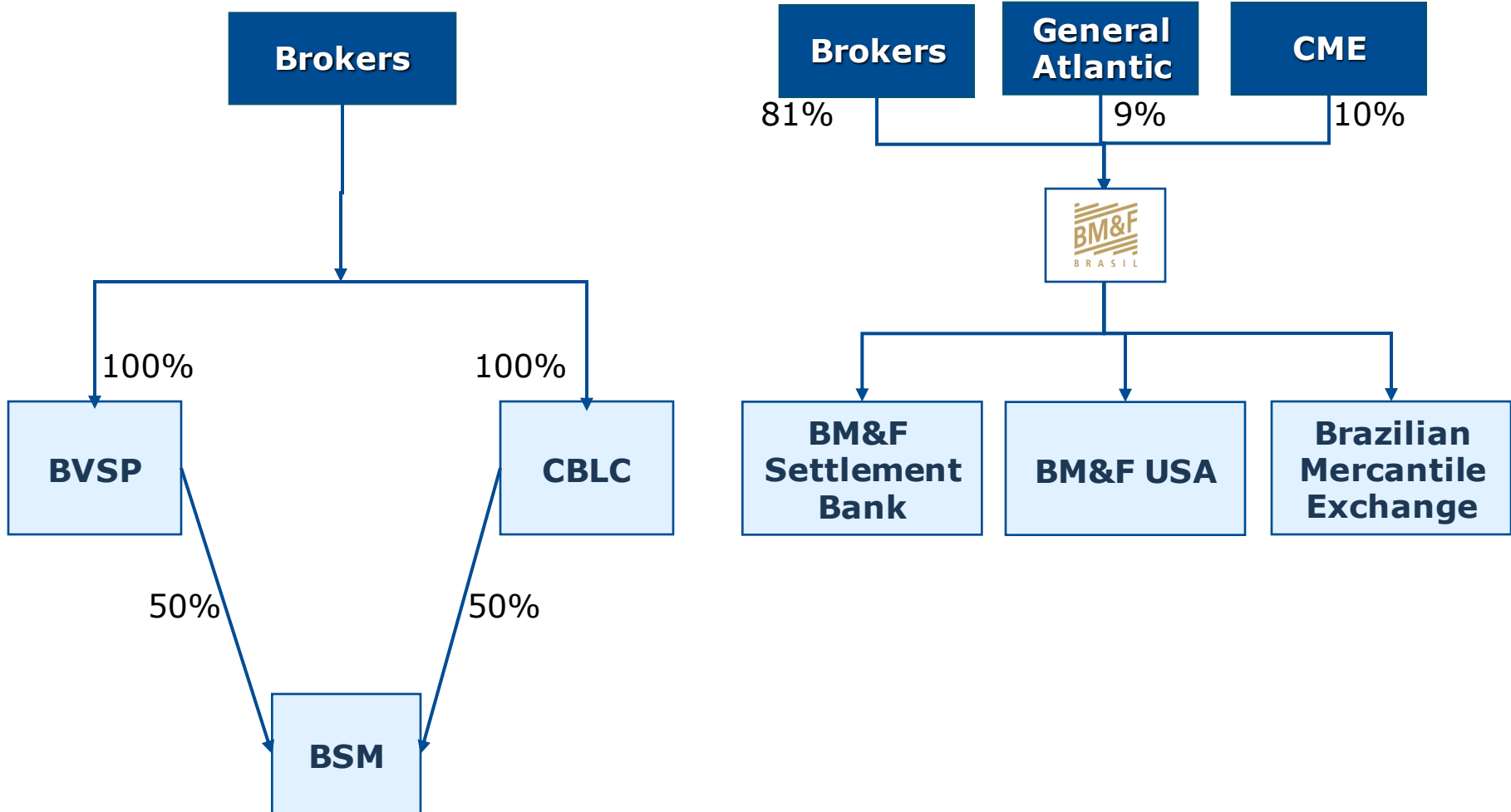


- ✓ Approval by the regulatory bodies
  - Securities and Exchange Commission and the Central Bank
  
- ✓ Corporate Restructuring
  - Approval by the members for the creation of a for-profit organization
  - Bylaws and contracts review
  
- ✓ Trading Access
  - Rules definition and licenses
  
- ✓ Self-Regulation
  - Restructuring of the supervision activity
  
- ✓ Social Responsibility
  - Future of the current projects
  
- ✓ Preparation to IPO
  - Adjustment to the financial statements standards and corporate governance improvements

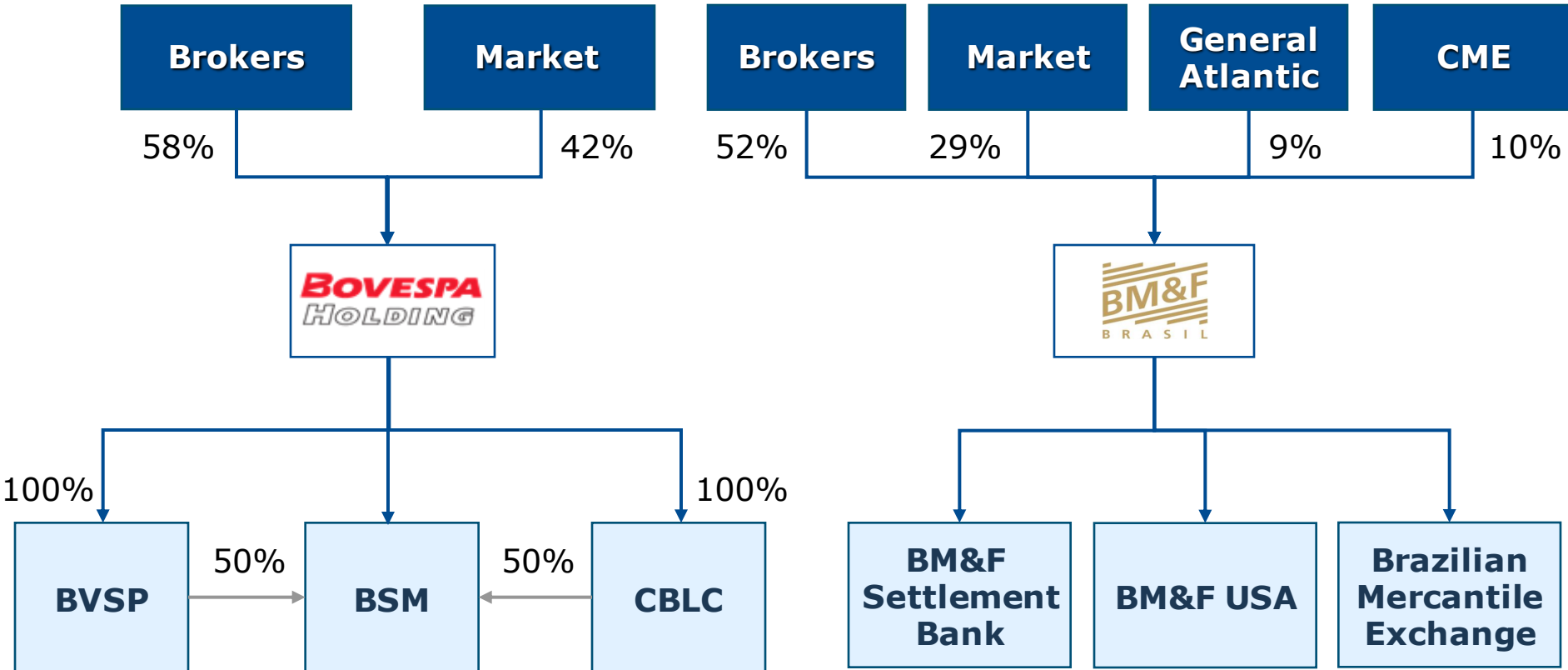
**Demutualization as a first step for the strategic plans**



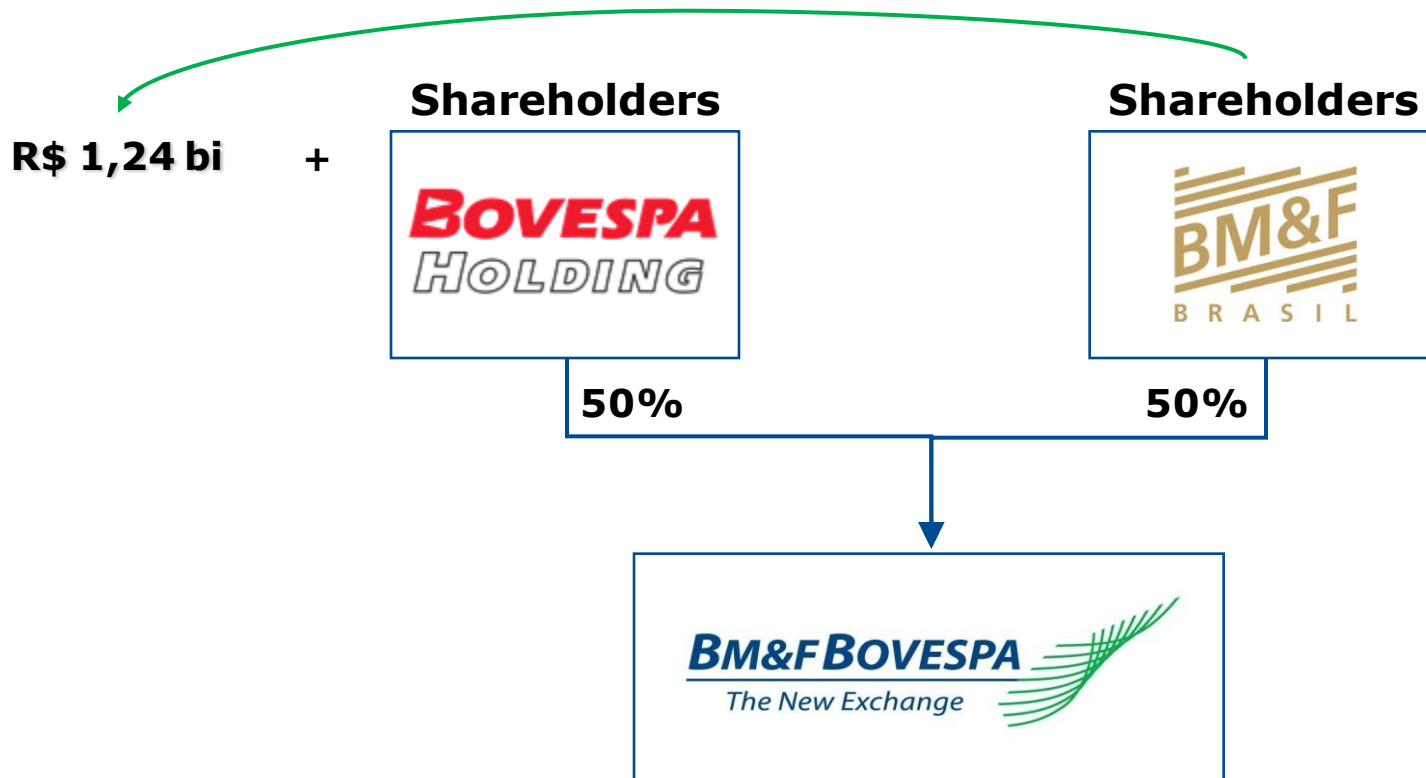
## Exchanges' Corporate Structure



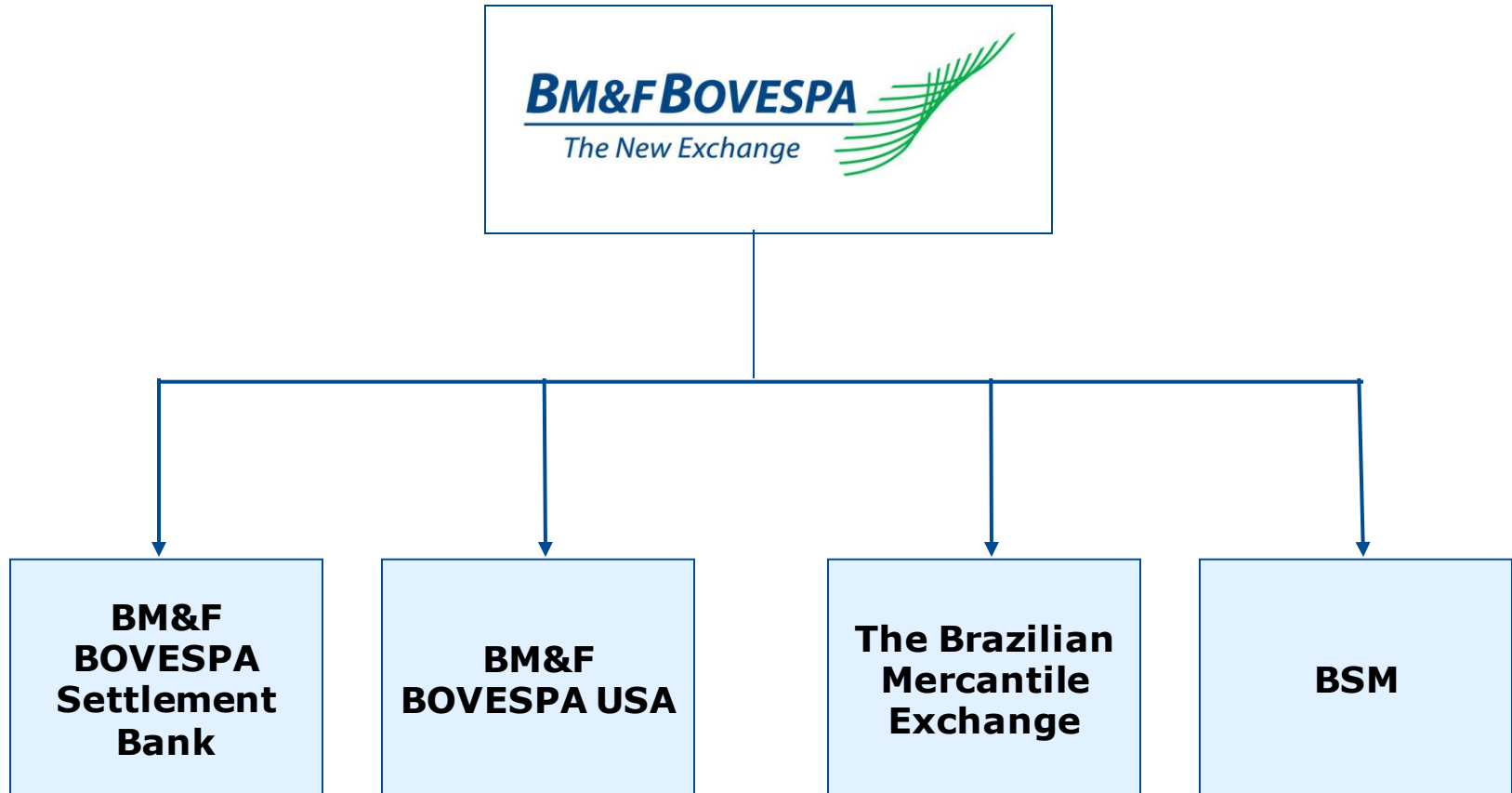
## Exchanges' Corporate Structure



# Merger between equals



✓ **Future Structure**



## TRADING PLATFORMS AND REGISTRATION SYSTEMS

### Spot Markets

### Derivatives Markets

#### CASH

#### FUTURES & OPTIONS

- Stocks
- Funds
- Corporate Bonds
- Government Bonds
- US Dollar
- Gold
- Commodities

- Equities
- Interest Rate
- Currencies
- Indices
- Metals
- Agricultural
- Commodities
- Energy

## CLEARINGS AND CENTRAL SECURITIES DEPOSITORY

Securities Settlement Systems  
Central Counterparty

## SETTLEMENT BANK

Custody Services



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