

---

---

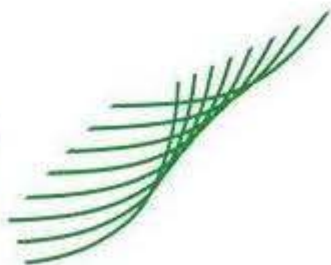
# ACTIVITIES REPORT

## 2010

---

---

**BSM**



**BM&FBOVESPA  
SUPERVISÃO DE MERCADOS**

## **INTRODUCTION**

In September 2010, Petrobrás held an IPO which reached R\$115 billion, the largest ever IPO held by a company in the history of capitalism. BM&FBOVESPA is nowadays the world's fourth largest exchange in market value, above the sum total value of the New York, London and NASDAQ stock exchanges.

These figures, added of the target set by BM&FBOVESPA to reach 5 million investors, bring further accountability to market surveillance conducted by BM&FBOVESPA Market Supervision - BSM.

With the purpose of continuing activities to strengthen and constantly improve the regulation and self-regulation tools in the securities market, BSM, based on its close relationship with Brazilian regulatory agencies, undertook several initiatives throughout 2010, some of which are highlighted below.

With the goal of meeting the growing demand of its activities, BSM hired 16 new employees during the year. Special attention was paid to strengthening its Legal Area, which added seven new lawyers to its workforce and hired three contract attorneys especially for the elaboration of legal opinions in MRP cases.

As well as expanding its workforce, BSM enhanced the skills of its teams since the excellence of the staff is essential to respond to the growth prospects of the securities market in the coming years, while ensuring its continuous sophistication. In this respect, in 2010, 76 BSM employees attended training courses in Brazil and abroad, totaling about 2,600 hours of training, which exceeded by three-fold the 2009 level when we totaled 800 hours in 17 courses

Specifically with regard to market surveillance and continually seeking greater efficiency, BSM implemented a new market surveillance methodology by using statistical tools which enabled the expansion of analysis capability for trades carried out within BM&FBOVESPA trading environments, as well as the generation of warnings on the evidence of illegal trading practices. This has led to greater efficiency in trade analysis conducted by the BSM staff, as they now focus their attention exclusively on trades which show strong signs of irregularity.

With regard to periodic inspections, operational audits were conducted in 74 BM&FBOVESPA market players, whereby registration, record-keeping, trade execution, trade settlement, securities custody, IT and security risk processes were inspected, in addition to aspects relating to autonomous investment agents. It should be noted that the audit program implemented in 2010 incorporated major improvements in the analyses as to combat money laundering.

To consolidate the image of BSM as a self-regulatory entity recognized nationally and internationally, the company organized jointly with Brazilian and international self-regulators the Half-Yearly Meeting and the 3<sup>rd</sup> Training Course of the SROCC – Self-Regulatory Organization Consultive Committee of IOSCO, which was held in Brazil for the first time, emphasizing the international relevance of Brazilian capital markets.

---

---

## **ACKNOWLEDGEMENTS**

The Director would like to thank the staff, the Market Surveillance Council, BM&FBOVESPA S.A., market players and regulatory agencies for their achievements in 2010 towards consolidating BSM as a self-regulatory organization acknowledged nationally and internationally.

## **MARKET SURVEILLANCE**

The surveillance activities undertaken by BSM consist of the application, in a coordinated and continuous manner, of monitoring procedures of BM&FBOVESPA markets. In direct market follow-ups, surveillance is focused on trades carried out in the spot and derivatives market with the purpose of detecting deviations that may be related to illegal trades.

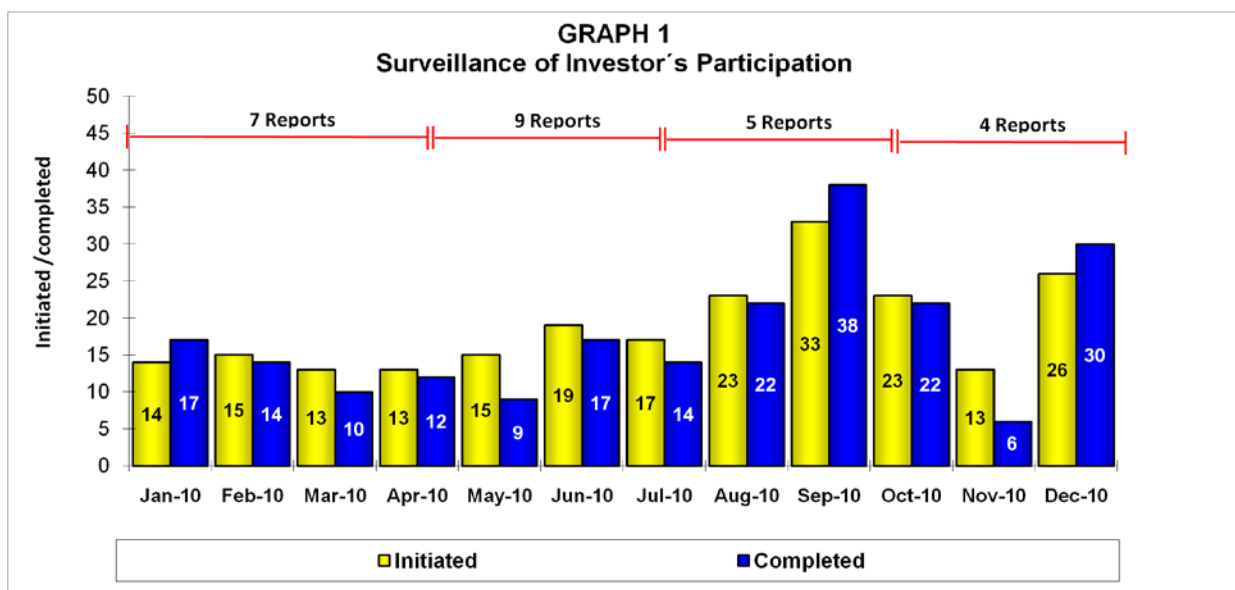
Market surveillance activities are aimed at identifying trades, investors and market players who have violated the rules in force, including those concerned with BM&FBOVESPA standards and procedures, especially with regard to the creation of artificial conditions of demand, supply or price; price manipulation; execution of fraudulent trading; unfair trade practices; misuse of inside information, and irregular activities in the securities market.

In continuation of the improvements begun in the previous year and continually seeking greater efficiency, in 2010 BSM developed new tools to detect abusive market practices (price manipulation and misuse of inside information)..

Furthermore, negotiations are underway for BM&FBOVESPA to adopt an internationally used system to detect trades which show signs of irregularity. Tests were performed during the trading process with data taken from the Brazilian market, which helped to identify the adaptations that will be necessary to be made for use on the BSM system.

Graph 1 shows the evolution in surveillance of investor's participation. This surveillance is aimed at identifying violations related to fraudulent trades, money laundering and irregular activities occurring in the securities market. The graph indicates, besides the number of analyses initiated and completed each month, reports based on those analyses. Such reports are documents that reflect strong signs of irregularity and, in general, are the source of administrative enforcement cases at BSM.

It should be noted that all trades carried out in the BM&FBOVESPA markets are analyzed by means of computational resources that issue warnings for cases requiring further investigation. The analyses quantified in Graph 1 are cases for which warnings have been issued and were therefore investigated by the BSM staff.



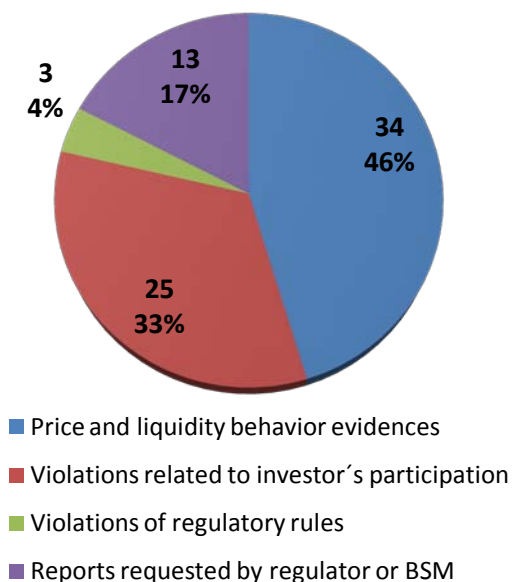
Furthermore, the BSM market surveillance comprises the analysis of equities trades issued by BM&FBOVESPA (self-listing) and the preparation of specific reports required by the Brazilian Exchange & Securities Commission (CVM).

It should be noted that the BSM performance is characterized by a close relationship with the regulator (CVM), by sharing the common goal of constantly improving the effectiveness of regulation and self-regulation instruments in the securities market. Therefore, the activities undertaken by BSM are closely accompanied by CVM, which receives immediate warnings in case of evidence of serious violations.

In addition to immediate warnings, BM&FBOVESPA submits to CVM reports on signs of irregularity as to non-compliance with the rules and legal standards enforced in the markets managed by BM&FBOVESPA and on random deviations observed in its trades, as well as the actions taken to remedy such violations.

Graph 2 and Table 1 summarize the market surveillance activities undertaken by BSM in 2010.

**GRAPH 2**  
**Market Surveillance**  
**Reports elaborated in 2010**



<b>TABLE 1</b>				
<b>Market Surveillance – in numbers</b>				
<b>Kinds of violations</b>	<b>Analysis</b>		<b>Reports</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Behavior of prices and liquidity of assets and derivatives (artificial conditions of demand, supply or price; manipulation of prices; fraudulent trading; unfair practices and use of inside information etc.)	4.615	5.181	25	34
Investor's participation (fraudulent trades, money laundering, irregular exercise of activity in the securities market etc.)	2.124	211	31	25
Compliance with BM&FBOVESPA operative rules and regulatory rules (Instructions CVM 168, 358 etc.)	5.931	5.854	10	3
Analysis and reports requested by the regulator or BSM's departments	-	431	15	13
<b>Total</b>	<b>12.670</b>	<b>11.677</b>	<b>81</b>	<b>75</b>

Furthermore, since the second half of 2009, when BMS implemented the automated analysis of all trades containing warnings on transactions with evidence of violation,

there has been greater efficiency in the analysis conducted by the BSM staff, who now focuses exclusively on trades that show strong signs of irregularity.

This explains the sharp drop observed in 2010 in the number of analyses regarding the participation of investors (fraudulent trades, money laundering, irregular exercise of activity in the securities market, etc.). However, when such analyses are compared with the reports originated from them, the gain in efficiency and assertiveness with the implementation of the data mining program is particularly clear.



## ***BM&FBOVESPA MARKET PLAYERS AUDIT***

Another role played by BSM is the direct surveillance of BM&FBOVESPA market players. In this surveillance, audits are of investigative nature and geared to the investigation of institutions in a comprehensive manner with the purpose of verifying compliance with applicable laws and regulations.

In audits conducted on the premises of surveyed institutions to verify adherence to standards, the market players' infrastructure and processes are assessed and items such as information technology, investment clubs, home broker, ombudsman office and autonomous agents are addressed, in addition to trading procedures related to customer registration, order receipt and registration, specification of clients, collateral allocation, trade settlement, and securities custody.

These audits are conducted according to a specific program – the Annual Operational Audit Program – which adopts a different period from the fiscal year.

The 2009 Operational Audit Program, whose field work began in March 2009 and was scheduled to finish by February 2010, was aimed at the inspection of 97 market players. For corporate reorganization purposes, the number of market players was reduced to 88 institutions, which allowed the 2009 Operational Audit Program activities to be finalized in January 2010.

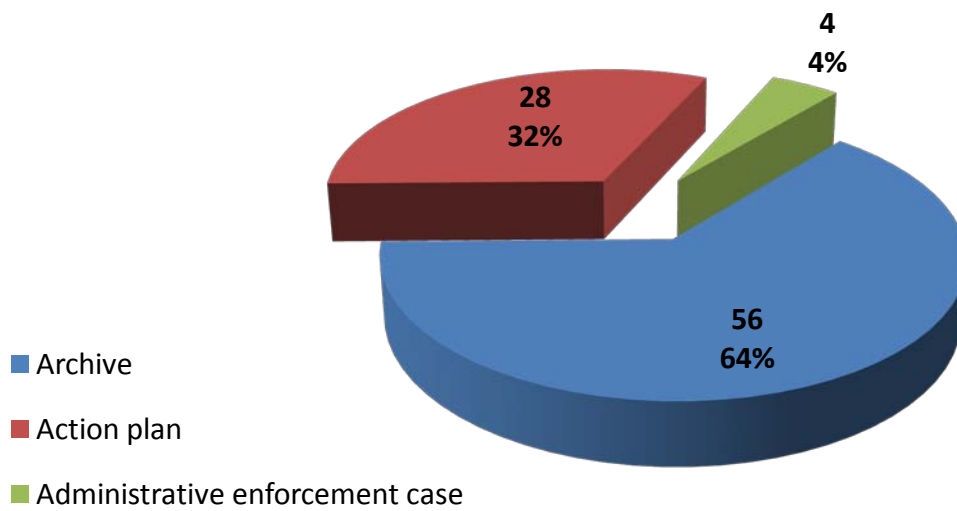
For this reason, the 2010 Audit Program began one month earlier in February 2010 and is expected to end in March 2011.

It should be highlighted that the 2010 Audit Program was run with its own team, made up exclusively of BSM employees, unlike in 2009 when it was necessary to hire an outsourced company to assist in the audits performed in the first half of that year.

The final result of the 2010 Audit Program is shown in Graph 3, in which one can observe that, depending on the irregularities identified, 4 administrative enforcement

cases were set up and action plans were required for 28 institutions. The action plan consists of the commitment undertaken by market players to implementing appropriate measures to mitigate risks and prevent the recurrence of nonconformities identified in the audit.

**GRAPH 3**  
**2009 Annual Operational Audit Plan**  
***Final Status***



The Self-Regulation Director is in charge of deciding on the final outcome of the audits, whereas his judgment is based on the irregularities found, considering their gravity and possible consequences of their occurrence to the market.

The 2010 Operational Audit Program (whereby the processes of registration, settlement and custody, portfolio management, trade orders, own portfolio, error account, margin account, money laundering prevention, integrity, risk, investment, autonomous investment agent, information technology, electronic trading and investment clubs are analyzed) has undergone improvements over the 2009 program.

Among the improvements implemented in 2010 is methodology enhancement involving the reformulation of criteria for risk ratings. For the 2010 risk ratings to be compared with the previous year, enabling the evolution of the internal control

structure of institutions, results of audits conducted in 2009 were adjusted according to these new criteria.

This required review of each report in the 2009 Program, which, for the initial audit rounds<sup>1</sup> of the 2010 Program, resulted in a wider gap between the completion of field work and delivery of the preliminary report to the audited institutions. This gap was approximately 8 months for the first audit round, and has gradually been reduced. For the seventh round, whose reports were delivered to institutions in early January 2011, the gap was 3.5 months. The goal is for this timeframe to stabilize at 3 months and this deadline should be met in the tenth audit round

It should also be noted that the audit program implemented in 2010 incorporated major improvements to the analysis of money laundering prevention. These enhancements were implemented due to the release of the last report issued by the International Financial Action Group (GAFI), created to combat money laundering practices which lead to terrorism and organized crime.

Following GAFI's analysis, which recommended improvements to combating money laundering in Brazil, BSM upgraded its money laundering prevention test, including a more thorough review of the processes and systems in place in institutions to prevent money laundering crimes or occultation of amounts.

Another important step was the introduction of a new review method incorporating comments from market players. The analysis of the preliminary report by market players and the incorporation of comments to the final report, which used to take place through exchange of correspondence, have been replaced by a single meeting between BSM and the market player held after delivery of the preliminary report to the institution. This meeting is recorded in a minute book; the minutes are signed and include the market player's comments and any correction in the audit notes, which are then incorporated into the final report submitted to the Self-Regulation Director for approval.

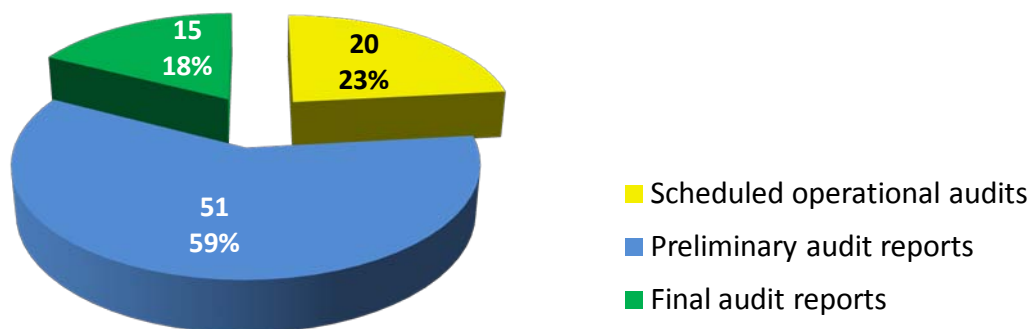
---

<sup>1</sup> The Annual Audit Program is divided into 10 or more audit rounds. On average, 8 institutions are audited at each round.

Graph 4 shows the status of the Operational Audit Program by year end 2010. To facilitate understanding, the audit process is divided into five phases, as outlined below:

- 1<sup>a</sup>) Scheduled operational audits: Denotes audits beginning on scheduled dates
- 2<sup>a</sup>) Data collection: Corresponds to audits in progress in institutions for data collection;
- 3<sup>a</sup>) Draft audit report: Covers from the preparation of the first draft of the audit report to its review with the audited institution;
- 4<sup>a</sup>) Final audit report: Comprises the preparation and forwarding of the final report to the Self-Regulation Director, including comments from the market player on the points indicated therein; and
- 5<sup>a</sup>) Audit report concluded: Includes the report analysis made by the Self-Regulation Director and his decision on the course of action to be taken.

**GRAPH 4**  
**2010 Annual Operational Audit Plan**  
*Status in December 2010*



The graph shows that 66 institutions (77% of the total market players) were audited during the year, which amounted to more than 27,000 hours of audit activities (in 2009, this activity consumed approximately 25,000 hours).

For 1Q11, audits are scheduled to take place at over 20 institutions, when the total number of market players are expected to be reached thus completing the audit cycle begun in 2010.

Therefore, in 2010, 74 market players were audited, while 8 institutions were found within the 2009 Operational Audit Program (Jan. 2010) and other 66 players were surveyed within the 2010 Audit Program (Feb. to Dec. 2010).

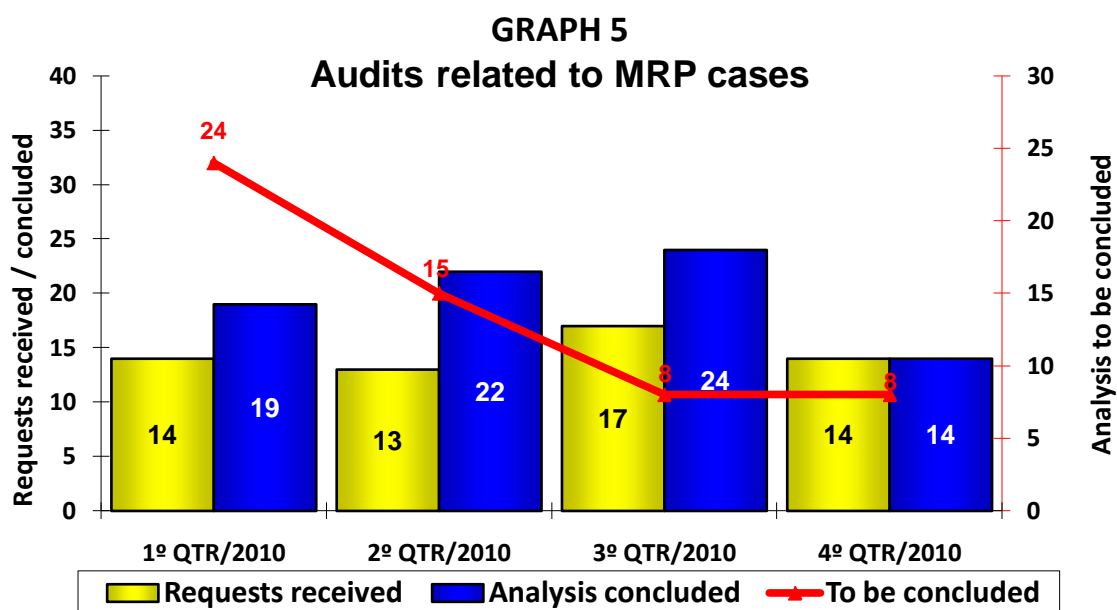
Apart from the audits in the Annual Operational Audit Program, BSM conducted specific audits by demand of CVM and half-yearly electronic connection audits – home broker – as required by CVM Instruction 380/02.

Also noteworthy is the fact that, during the year, specific audits were conducted during the custody process, in which securities transfers made by 42 market players between April 2008 and June 2010 were analyzed.

Furthermore, audits were also carried out by request of BSM departments, by request of the Ombudsman and to provide support to MRP cases and administrative enforcement cases as shown in Table 2.

<b>TABLE 2</b>		
<b>Market Players Audits</b>		
<b>Kinds of Audits</b>	<b>2009</b>	<b>2010</b>
Operational audits	80	74
Audits related to MRP cases	62	79
Depository audits (securities transfers)	-	42
Audits related to electronic connections (home broker)	2	2
Information requested by Ombudsman	25	3
Information requested by BSM departments	3	29
Information requested by the regulator (CVM)	2	4
Information related to administrative enforcement cases	2	12
<b>Total</b>	<b>176</b>	<b>245</b>

Graph 5 shows the evolution of audit requests to support MRP cases, inventory analysis to be concluded at the end of each quarter, and the audit reports actually prepared. In 2010, 58 audit requests were received and 79 audit reports related to MRP cases were elaborated.



One of the highlights is the increased amount of technical reports concluded continuing the trend observed from the second half of 2009. The number of analyses to be concluded, which reached 58 in June and July 2009, was reduced to 29 later that year. Throughout the first half of 2010, the inventory was gradually reduced, and stabilized at 8 analyses to be concluded as of 3Q10.

Since October 2009, the average timeframe to conclude requests has been 28 days, while the maximum timeframe of 30 days set as a goal has not been exceeded. Before October 2009, the average was around 130 days<sup>2</sup>.

<sup>2</sup> For this calculation, we considered the audit reports requested between January 2007 and September 2009.

This was possible thanks to an increase in staff fully dedicated to the analysis of demands related to MRP cases. The team is currently composed of 1 coordinator and 3 auditors.

Besides the quantitative growth, it should be emphasized the improvements made to the data produced in these reports, which now include the evolution of investors' portfolio occurred within a proper timeframe for analyzing the suitability of the requests.

## **ADMINISTRATIVE ENFORCEMENT CASES**

BSM is responsible for establishing, examining and conducting administrative enforcement cases pertaining to violations of legal procedures and regulations occasionally committed by the BM&FBOVESPA securities market players. This disciplinary activity aims to improve the standards of conduct of market players and their internal controls and prevent the recurrence of such violations.

Upon judging administrative enforcement cases, BSM may apply the following penalties prescribed in its Bylaws:

- ✓ Warning;
- ✓ Fine;
- ✓ Suspension (90 days);
- ✓ Temporary disqualification (up to 10 years); and
- ✓ Other penalties provided under the BM&FBOVESPA regulations and operational procedures

Market players may sign a commitment instrument including their obligation to adopting measures aimed at preventing the recurrence of events that lead to the administrative enforcement process. Such terms of commitment sometimes stipulate the payment of a pecuniary sum, which is reversed completely to the enhancement and development of the securities market and the improvement of BMS self-regulation activities.

The Market Surveillance Council may accept or reject the proposed commitment instrument. Acceptance of the term will establish the lifting of the administrative enforcement case. Once the commitment instrument has been fulfilled, the case is concluded. If the institution does not comply fully and in good faith with the obligation assumed in the commitment instrument, the administrative enforcement case is reinitiated without prejudice to future application of appropriate penalties.



Once the administrative enforcement case has been reinitiated, the decision will be made in the first instance by a group consisting of three members of the Market Surveillance Council and then by the entire membership<sup>3</sup> of this Council.

It should be noted that the administrative enforcement cases may involve, in addition to financial institutions, their representatives or agents (individuals), who are also given the option of entering into a commitment instrument.

In 2010, a study was conducted to improve the BSM Procedural Regulation with the purpose of providing greater speed and simplifying administrative enforcement cases. As a result of this study, a proposal was submitted for approval of CVM to amend the current regulation, whose main topics are described below:

- a) Extinction of pre-procedural phases of inquiry and investigation to ensure a more nimble conclusion of processes, thus providing the accused with ample opportunity to present their defense during the investigations conducted by BSM which preceded the institution of an administrative enforcement case;
- b) Inclusion of a clause that provides for open sessions of administrative enforcement cases held by the Market Surveillance Council, so as to ensure greater transparency to its decisions;
- c) Inclusion of a clause that provides for a common timeframe for the preparation of the defense or the proposal for the commitment instrument;
- d) Provision on the rejection of general requests for production of evidence, as well as the provision on the production of irrelevant, unnecessary or unfounded evidence in order to ensure procedural celerity, and
- e) Inclusion of a chapter that deals with bad faith litigation.

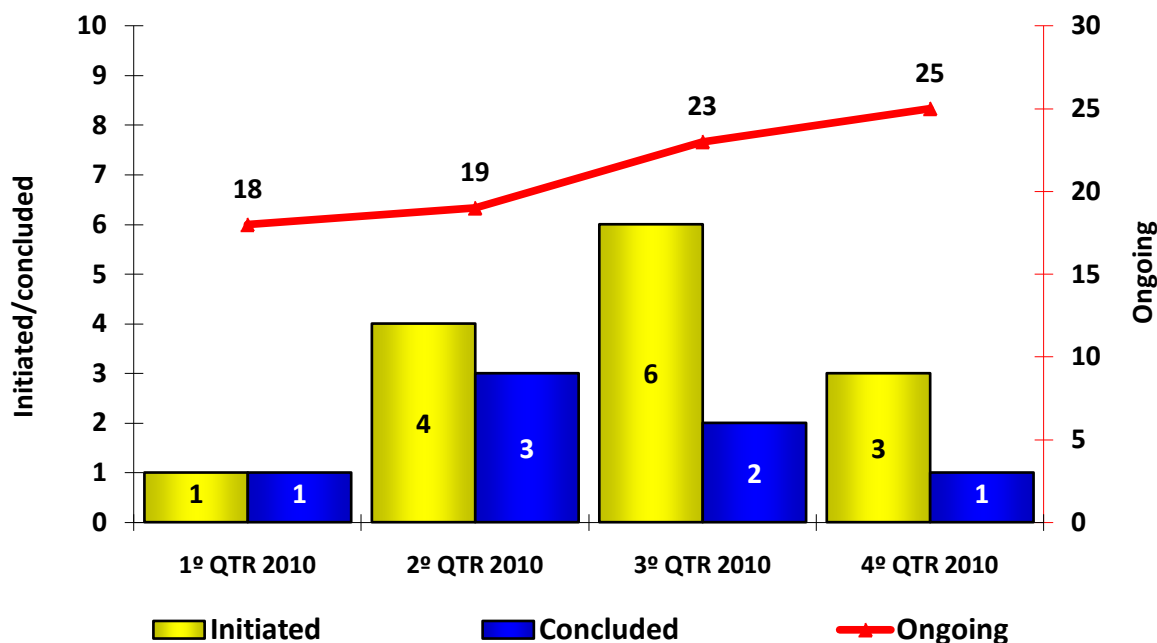
---

<sup>3</sup> The entire membership of the Market Surveillance Council is made up of 7 independent council members and 2 council members associated with market players.

In Graph 6, we observe the evolution of administrative enforcement cases initiated. BSM began the year with 18 ongoing cases and initiated 14 new administrative enforcement cases throughout 2010. Upon conclusion of 7 of those cases, by year end, there were 25 cases in progress.

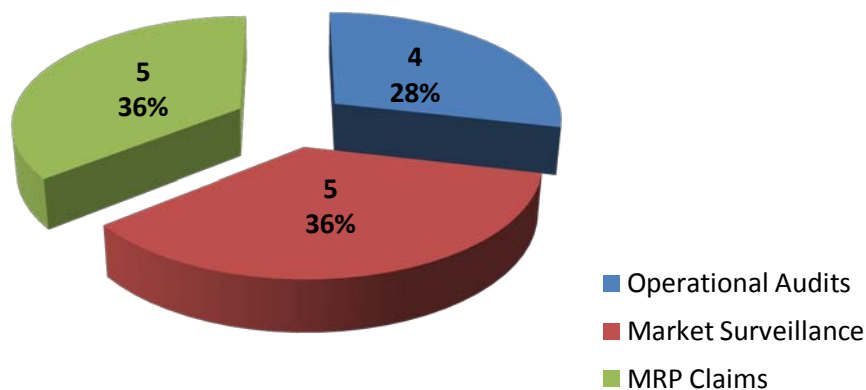
It is worth mentioning that BSM hired new staff to compose the legal team dedicated to the initiating and conducting administrative enforcement cases (the team is made up of 1 coordinator, 3 lawyers, 1 trainee and 1 intern).

**GRAPH 6**  
**Evolution of Administrative Enforcement Cases**



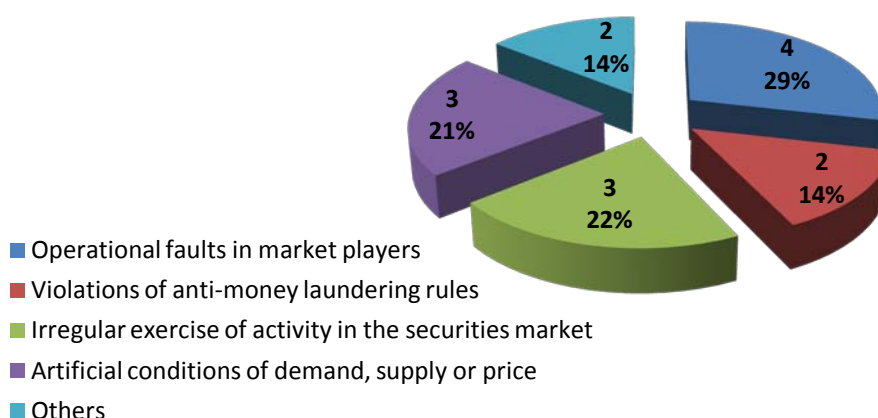
The administrative enforcement cases initiated in 2010 were originated primarily from investigations on the surveillance activities promoted BSM (5 activities from market surveillance and 4 by audits of market players), shown in Graph 7. Another 5 cases were originated from claims to MRP. It should be noted that any irregularity identified during the establishment of MRP cases can lead to the initiation of administrative enforcement cases, regardless of the outcome of the MRP case (whether the investor's claim is justified or not).

**GRAPH 7**  
**Source of Administrative Enforcement Cases**



In Graph 8, operational faults are identified in brokerage houses, irregular exercise of activity by autonomous agents and artificial conditions of demand, supply or price, in that order, as the main subjects of administrative enforcement cases established in 2010.

**GRAPH 8**  
**Subject of Administrative Enforcement Cases**



In total, 6 administrative enforcement cases were judged in 2010. Of these, 4 cases were decided in the first instance by the arbitrating body of the Market Surveillance Council, composed of 3 council members, while 3 of those cases were at the appellate stage by year end 2010.

Other two cases were decided by the Self-Regulation Director, responsible for trying in the first instance administrative enforcement cases brought under the summary proceeding. By year end 2010, one of the cases was awaiting enforcement of the penalty. Under summary proceeding are cases involving violations of objective nature, noncompliance with BSM or BM&FBOVESPA rules, or misuse of passwords to access the BM&FBOVESPA systems.

The entire membership of the Market Surveillance Council decided in the second instance two administrative enforcement cases.

The parties involved in administrative enforcement cases, as well as the corresponding decisions, are open to the public and are available on the BSM webpage<sup>4</sup>.

**TABLE 3**  
**Results of Concluded Administrative Enforcement Cases**

Year	Judgment		Commitment Instruments	Penalties			Total <sup>A</sup> (R\$ thousand s)
	Convicted	Absolved		Warning	Fine	Temporary Disqualification	
2008	3	-	11	2	1	-	510
2009	1	1	28	1	-	-	2.170
2010	2	-	5	-	1 <sup>B</sup>	1	730

<sup>A</sup> The total amount corresponds to the sum total of the fines and commitment instruments.

<sup>B</sup> Alternative fine penalty in the amount of R\$98,694.49 or, as a substitute, the adoption of measures to prevent new irregularities.

In 2010, 7 administrative enforcement cases were concluded – 2 of them by applying penalties imposed on the accused and 5 through the full compliance with the obligations assumed in their respective commitment instruments<sup>5</sup>.

<sup>4</sup> BSM webpage – PAD: <http://www.bsm-autorregulacao.com.br/ProcessosAdministrativos.asp>

<sup>5</sup> Out of these terms of commitment, 4 were entered into in 2009 and fulfilled in 2010 and one was entered into and fulfilled in 2010.

In Table 3, we identified penalties imposed on 2 administrative enforcement cases concluded in February 2010, following a decision by the Market Surveillance Council, with one temporary disqualification and one alternative fine penalty or, as a substitute, production of an opinion of an independent audit organization confirming the adoption of measures to prevent further irregularities like those which prompted the administrative enforcement case.

Also in 2010, 6 terms of commitment were entered into relating to 3 administrative enforcement cases, while 2 of such cases are awaiting full compliance with the obligations assumed by the compromisers to be concluded.

## ***LOSS RECOVERY MECHANISM (MRP)***

BSM manages the Loss Recovery Mechanism (MRP), whose purpose is to ensure that investors recover losses arising from any action or omission of market players. In this respect, BSM is responsible for analyzing claims from investors, as well as establishing, examining and elaborating legal opinions in MRP cases resulting thereof under the MRP Regulation.

In 2010, a study was conducted to improve the MRP Regulation with the purpose of streamlining its structure and simplifying its procedural rites. As a result of this study, a proposal was submitted to CVM approval for amendments to the regulation, whose main topics are described below:

- a) Creation of 3 procedural rites (ordinary, summary and most summary proceedings), applied according to the amount due and/or majority understanding of the Market Surveillance Council, noted in the docket;
- b) Inclusion of provision on the duties of the parties and the coercive measure (fine) to be applied, should any litigation in bad faith by either party be found;
- c) Exclusion of the procedural stage of submission of a reply, and
- d) Modification of deadlines for recovery of losses to the Claimant.

With regard to the MRP equity, it should be noted that BSM has hired a renowned technical-academic institution to define its new maximum and minimum amounts. Faced with the possibility that the outcome of these studies should indicate the sufficiency of the MRP equity and, therefore, the possibility of institutions to be exempted from the payment of monthly contribution fees, BSM created the Loss Recovery Mechanism 2 (MRP2).

The MRP2 has the same purpose as the MRP, but its equity is made up of contribution fees paid as of December 2009. The amounts collected by MRP2 are

likely to be returned to the institutions, wholly or partially, depending on the amount defined as maximum for the MRP<sup>6</sup> equity.

From the analysis of historical data in the evolution of investor claims received under the former Guarantee Fund, managed by BOVESPA, and the claims received during the current MRP run by BSM, we observe that as of 2007, there has been a significant growth in the number of claims (Table 4).

<b>TABLE 4</b>						
<b>Historical Data of Claims to MRP</b>						
	<b>GUARANTEE FUND - Bovespa</b>			<b>MRP - BSM</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Received Claims	17	17	47	143	135	120
Monthly average	1,4	1,4	3,9	11,9	11,2	10,0
Variation	-	0%	176%	204%	-6%	-10%

The increase in the number of complaints sent to the MRP in the past three years, when compared to the previous three years, led to a backlog of claims and processes. To meet this demand, the BSM hired new personnel for the Audit area, responsible for issuing technical reports to support legal opinions. Staff was also hired to work in the Legal area, responsible for the implementation, examination and preparation of legal opinions on MRP cases (the team is currently composed of 1 coordinator, 4 lawyers and 1 trainee fully dedicated to this activity).

Additionally, in November 2009, BSM hired an outsourced team of lawyers to assist in the preparation of opinions pertaining to MRP cases.

By adopting these measures, there was an increase in the number of legal opinions issued (30 in 2009 vs. 94 in 2010), and in the amount of concluded cases (85 in 2009 vs. 134 in 2010).

<sup>6</sup> Return of amounts to market players will be subject to CVM's approval of the methodology and minimum and maximum amounts proposed.

Table 5 shows that we began 2010 with 171 ongoing claims. Throughout the year, BSM received over 120 claims, totaling 291 claims. Of this total, 134 claims were concluded. Of these, 41 claims were archived for lack of requirements or due to the untimeliness in their submission, other 5 were concluded as a result of agreement between the parties, and 1 due to desistance of claimant.

<b>TABLE 5</b>			
<b>Loss Recovery Mechanism - MRP</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Initial balance</b>	20	121	171
<b>Received claims</b>	143	135	120
<b>Concluded claims</b>	42	85	134
Archive	11	39	41
Judgment CS	28	36	87
Agreement	1	8	5
Investor's Desistance	2	2	1
<b>Final balance</b>	<b>121</b>	<b>171</b>	<b>157</b>

The Market Surveillance Council, in turn, concluded 87 cases with judgment on the merits, among which 81 were unfounded and 6 partially founded. From the latter cases, two investors appealed to the CVM and 4 were received cash compensation (total amount of R\$10,340.34) and securities compensation (313 PETR4)).

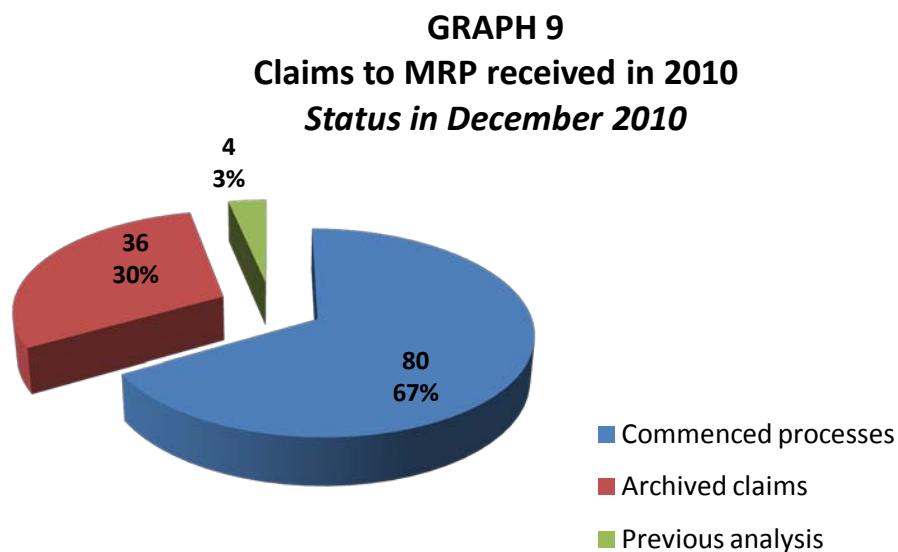
Thus, BSM concluded 134 claims in 2010 (56% higher than in the previous year), while 157 claims were in progress at year end.

Other 4 investors were compensated in April 2010 in cash (total amount of R\$643,746.22) and in securities (333 BRAP4, 2928 and 5072 ITSA4 KLBN4), due to a review of the Market Surveillance Council decisions made by CVM on claims dating from 2001 to 2008.



Furthermore, by year end 2010, 7 other cases upheld by the Market Surveillance Council were awaiting final decision for compensation.

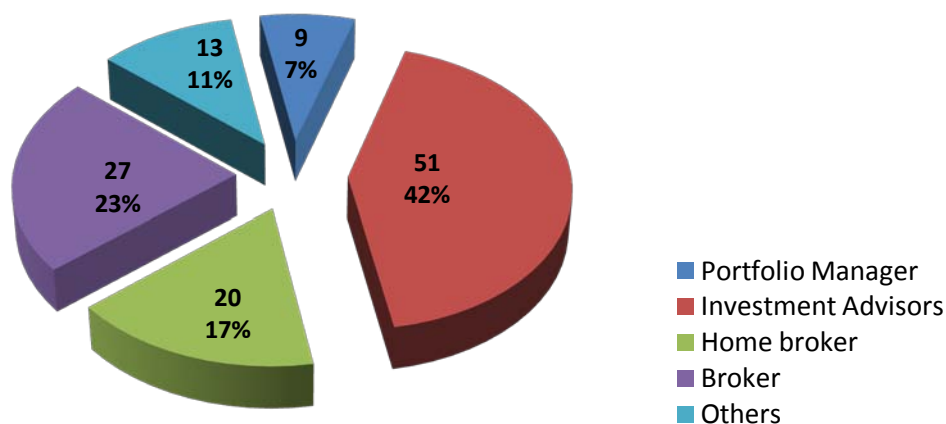
Considering the 120 claims received in 2010, 80 cases were initiated, 36 claims were archived and 4 are undergoing previous analysis prior to the initiation of the process (Graph 9).



Among the main problems claimed by investors in the claims submitted to MRP in 2010, there is a predominance of claims about the performance of autonomous investment agents (42%) on allegations of:

- (i) Execution of trades without prior consent of the investor;
- (ii) Promise of minimum return not fulfilled; and
- (iii) Failure to forward investment statements or remittance of fictitious statements.

**GRAPH 10**  
**Claims to MRP received in 2010 - Main Subjects**



It was observed that in some cases, the allegations are based on actions of autonomous agents who act as a attorney-in-fact or administrator of the investment portfolio, in which investors claim that trades were allegedly carried out without their request or consent.

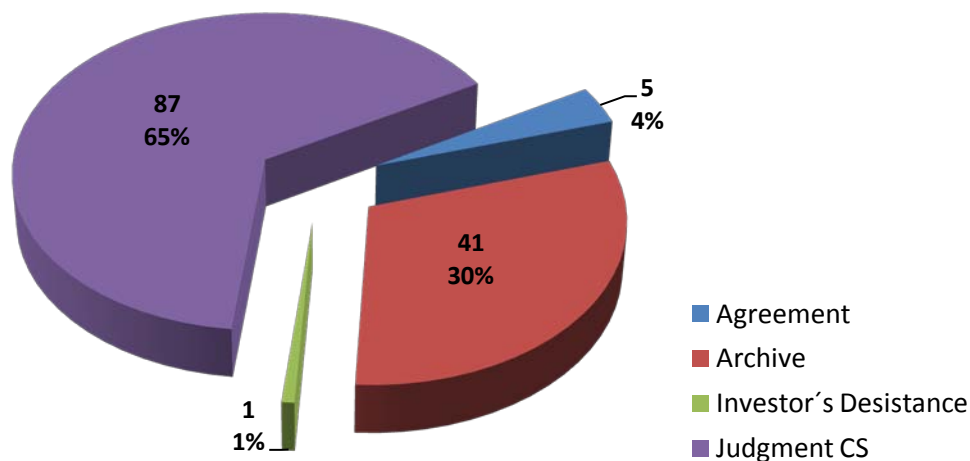
When evidence of such irregularities is identified, the cases are further analyzed under the MRP independent procedure, which may culminate in the establishment of an administrative enforcement case by BSM.

Also noteworthy are the claims arising from the use of home broker (17%), most of which are focused on delays in updating positions or instability and slowness of the systems.

Among the complaints involving allegations of violations committed by traders (23%), the prevailing claim is allegedly unauthorized trades by investors.

Graph 11 shows the claims concluded in 2010, whereby 65% of the complaints were concluded by final decision of the Market Surveillance Council and 30% were archived.

**GRAPH 11**  
**Claims to MRP concluded in 2010**



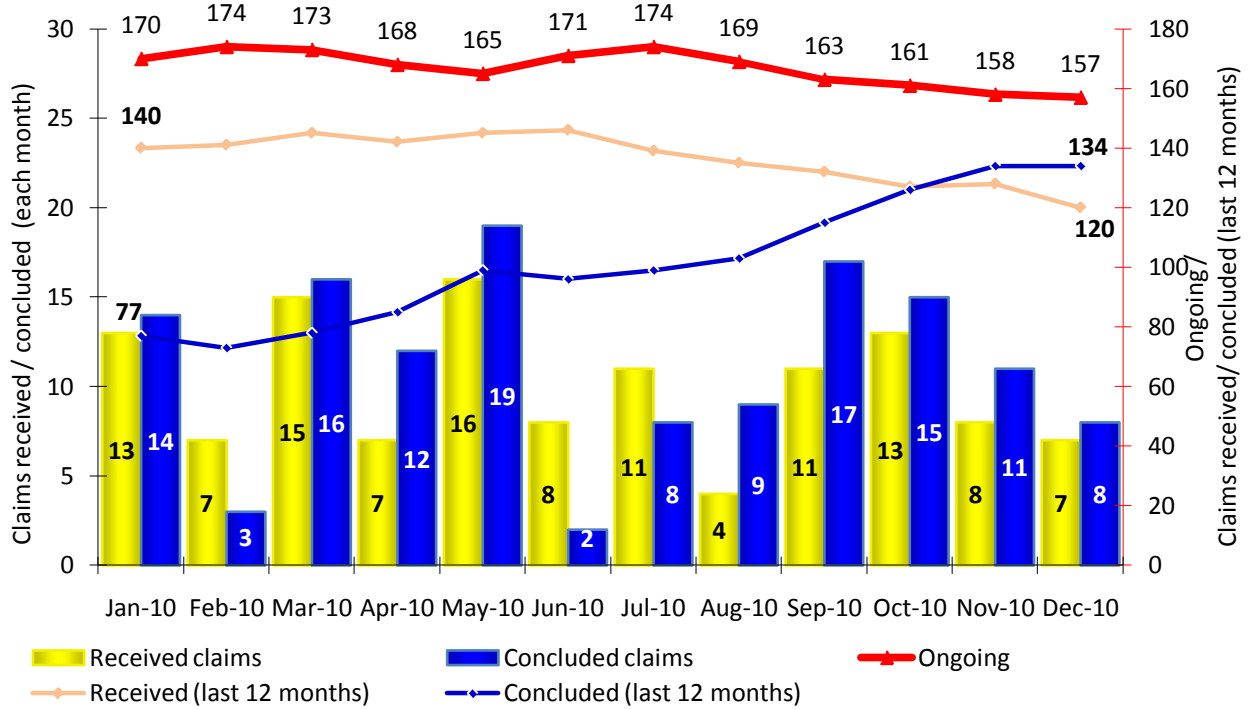
The archiving of a claim is made by decision of the Self-Regulation Director whenever this claim fails to meet the requirements provided for in the regulation. In most cases, archiving was due to untimeliness, i.e. the claim was submitted after the proposed timeframe<sup>7</sup>.

In Graph 12, we observe the evolution of the claims received and concluded in 2010. BSM began the year with 171 ongoing claims and received on average 10 claims per month, less than the average observed in the previous two years (see Table 4). With the conclusion of 134 claims, by year end 2010 there were 157 ongoing claims. The orange and blue lines in the graph show the evolution in the total claims in the 12 months of 2010, concluded on a monthly basis.

As highlighted in the graph, in November for the first time ever, the amount of MRP cases concluded exceeded the number of claims received, considering the cumulative claims in 12 months (134 x 128). In December, this trend was maintained (134 x 120).

<sup>7</sup> Since the publication of CVM Instruction No. 461, the timeframe for investors to claim loss recovery has changed to 18 months, counting from the date of occurrence of the action or omission which originated the request. Formerly, under Resolution No. 2.690 of the Brazilian Monetary Council, the timeframe for application of recovery to the former Guarantee Fund was six months, counting from the date of occurrence of the action or omission which had originated the loss or from the date of the knowledge of the fact.

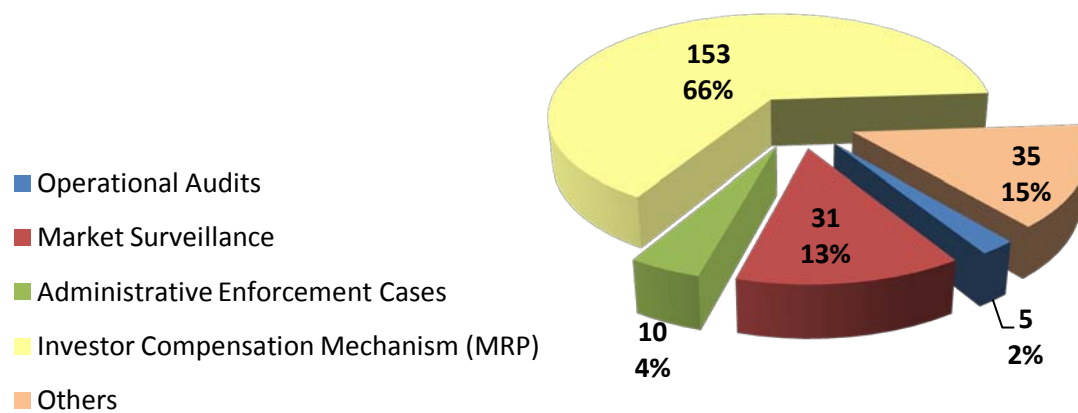
**GRAPH 12**  
**Evolution of Claims to MRP**



## **CONTACT CENTER (SAP)**

In 2010, our Contact Center, which is aimed at collecting opinions, criticisms and suggestions on the performance of BSM, BM&FBOVESPA and its market players, responded to 234 enquiries which addressed the issues identified in Graph 15.

**GRAPH 15**  
**Contact Center**



---

---

## ***STANDARDS REVIEW***

Along with BM&FBOVESPA and CVM, BSM participated in the discussion about the review of standards related to the implementation of new modalities for direct market access (DMA) and identification procedures for traders and order transfer agents. In addition, BSM also participated in discussions about extending the BM&FBOVESPA Operational Qualification Program (PQO) to the Bovespa segment.

Furthermore, BSM provided comments and suggestions to the Public Hearing 03/10, on the regulation of the autonomous investment agent activity

## **INTERNATIONAL INSERTION**

In order to consolidate the image of the BSM as self-regulatory entity recognized nationally and internationally, the joint organization with other Brazilian and international self-regulatory bodies of the Half-Yearly Meeting and the 3rd Training Course of the SROCC – *Self-Regulatory Organization Consultive Committee* of IOSCO, which was held in Brazil for the first time, highlighted the international relevance of our capital markets.

At the meeting, key topics for regulating the securities market were addressed, such as corporate governance, market surveillance, and measures to combat money laundering.

Furthermore, BSM attended the *Chief Regulatory Officers Conference 2010*, a discussion forum that gathered together regulators and self-regulators from the securities market to discuss systemic regulation, comprising recent market developments and regulation guidelines.

BSM was also invited to attend the meeting of the *Intermarket Surveillance Group – (ISG)*, where topics such as the impact of regulatory changes on the market were addressed with in-depth discussion and analysis of trade surveillance cases, including trades carried out in a structured manner within different international trading environments.

BSM also attended the 35th Annual Conference of IOSCO - *The International Organization of Securities Commissions* and the half-yearly meetings of COSRA - *Council of Securities Regulators of the Americas*, where it had the opportunity to present its self-regulation model, highlighting the strengths of Brazilian regulation innovation to counter the global financial crisis.

In addition, BSM also participated in the following international training programs:

- ✓ *Implementing IOSCO's Principles for Secondary Markets*  
London, January 2010 – Org: SROCC and ICMA.
  
- ✓ *Risk Based Supervision Capacity Building Workshop*  
Costa Rica, January 2010 – Org: IOSCO, IMF and BNV.
  
- ✓ *20<sup>th</sup> International Institute for Securities Market Development*  
Washington, April 2010 – Org: SEC.
  
- ✓ *Securities Enforcement and Market Oversight Training*  
Washington, November 2010 – Org: SEC.