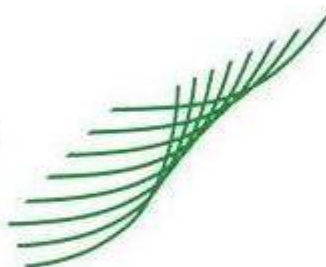

ACTIVITIES REPORT

2011

BSM



BM&FBOVESPA
SUPERVISÃO DE MERCADOS

INTRODUCTION

Important events in international capital markets had a significant impact on Brazil in 2011. Recession and crisis in the United States and especially in Europe affected the performance of capital markets around the world, to the detriment of securities exchanges, investors and companies that seek funding in these markets.

Nevertheless, the Brazilian capital market continued to offer an important option for domestic and foreign investors. In exchange markets, the year saw the consolidation of direct market access at BM&FBOVESPA, especially via co-location, and growth of high-frequency trading in both the BM&F segment, where it accounted for 7.2% of total volume, and the Bovespa segment, where it accounted for 10.3%.

Another highlight was the announcement by exchange operators from other countries that they plan to install electronic trading platforms in Brazil.

These and other market moves are scrutinized attentively by regulators and self-regulatory organizations in Brazil and worldwide. Multilateral organizations such as BIS¹ and IOSCO² published important documents and recommendations on the regulation and supervision of markets where cutting-edge technology is advancing by leaps and bounds. They also showed concern with specific products and services, such as over-the-counter derivatives and dark pools, which are private electronic transaction networks with little or no transparency.

Alongside initiatives by multilateral organizations, reforms were introduced by national authorities. Regulators in the US, for example, continued to implement the Dodd-Frank Act,³ while in 2011 the European Commission published its legislative proposal for MiFID II,⁴ which is now before the European Parliament and Council for

¹ Bank for International Settlements.

² International Organization of Securities Commissions.

³ The Dodd–Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010, in the aftermath of the 2008-9 financial crisis.

⁴ The Markets in Financial Instruments Directive (MiFID) is a European Union law that provides harmonized regulation for investment services across the region. MiFID II is a second, updated edition.

approval. In both cases, considerable emphasis was placed on the regulation of derivatives markets, dark pools and high-frequency trading.

The main focus of international discussions in this arena is how to guarantee the integrity and efficiency of the markets.

In Brazil, regulation advanced in several noteworthy areas, including the issuance by Comissão de Valores Mobiliários (CVM), the securities and exchange commission, of new instructions governing transactions in regulated securities markets (IN 505) and the activities of autonomous investment agents (IN 497).

CVM also issued for public consultation a number of draft rulings to enhance the regulation of portfolio managers, rating agencies and investor suitability. Comments and suggestions will be accepted until early 2012.

BM&FBOVESPA Supervisão de Mercados (BSM) launched several initiatives during the course of 2011 to continue strengthening and upgrading the instruments of securities market regulation and self-regulation, leveraging its close relationships with regulators, and focusing on market integrity and investor protection.

BSM amended its articles and bylaws in 2011 with the aim of enabling it to participate more actively in talks about regulation in Brazil and in global forums, and to meet growing demand for its activities. The new corporate documents were approved by CVM in November.

The amendments include expansion of the Supervisory Board from ten to 12 members and the creation of a Strategy Committee comprising five members of the Board.

The expanded Board and the new Strategy Committee will enhance BSM's strategic planning and strengthen the organization's capacity for institutional representation and interaction with regulators and self-regulatory bodies at home and abroad.

Furthermore, BSM was thoroughly restructured toward the end of 2011. The most visible aspects of the restructuring were a broadening of the scope of its activities to include auditing of brokers for certification under BM&FBOVESA's Operational Qualification Program (PQO), and an expansion of the workforce, which will exceed 100 people in 2012, up from about 70 in 2011.

Evolution of headcount

Job title	2011	%	2012	%	Difference
Manager	4	5%	6	6%	+2
Coordinator	9	12%	16	15%	+7
Specialist	4	5%	4	4%	0
Senior analyst	10	14%	25	23%	+15
Analyst	12	16%	18	17%	+6
Junior analyst	25	34%	28	26%	+3
Trainee	1	1%	5	5%	+4
Assistant/clerk	9	12%	6	6%	-3
Total	74	100%	108	100%	34

As well as adding staff, BSM intensified training, since staff excellence is required to keep pace with the growth and increasing sophistication of the securities market in the coming years. To this end in May 2011 BSM held a training course entitled "Securities Market Supervision and Enforcement" for its entire technical staff in partnership with CVM and the US Securities and Exchange Commission.

The aim of the course, in addition to enhancing the technical skills of the participants, was to build closer ties with the various organizations that operate in this arena in Brazil and internationally. It was attended by representatives not only of CVM, BSM and SEC, but also of the Brazilian Judiciary, Federal Prosecution Service (MPF), Federal Police (PF) and Financial Activities Control Council (COAF), and the US Financial Industry Regulatory Authority (FINRA) and Federal Bureau of Investigation (FBI).

The syllabus included insider trading, market manipulation and accounting fraud, and the coordination of public and private institutional efforts to prevent and combat capital market offences in the administrative, civil and criminal spheres.

In market supervision, BSM proceeded in its pursuit of greater assertiveness and efficiency by implementing a new system for the supervision of securities and derivatives markets, extending the supervisory instruments hitherto available.

In inspection and oversight of market participants, besides periodical auditing of the operations of institutions that participate in BM&FBOVESPA's markets, it conducted a specific audit of autonomous investment agents. Thirty-seven of the 89 participants with access to the trading environments managed by BM&FBOVESPA have active autonomous investment agents. BSM carried out on-site inspection of 135 agents, verifying their processes with regard to orders, money laundering prevention and information technology, among others.

The year was highly productive for BSM's supervision and enforcement activities, and the organization expects the restructuring implemented in November to contribute to even better results in 2012.

MARKET SUPERVISION

BSM's activity consists of the coordinated and continuous deployment of procedures to monitor the markets operated by BM&FBOVESPA. Its supervision of transactions processed by the cash and derivatives markets aims to detect deviations that may relate to the execution of irregular transactions and identify participants, market professionals or investors responsible for infringing the applicable rules and regulations, including BM&FBOVESPA's norms and procedures.

In particular, BSM seeks to detect the creation of artificial demand, supply or prices, price manipulation, fraudulent transactions, unfair practices, insider trading and the irregular exercise of activities in the securities markets.

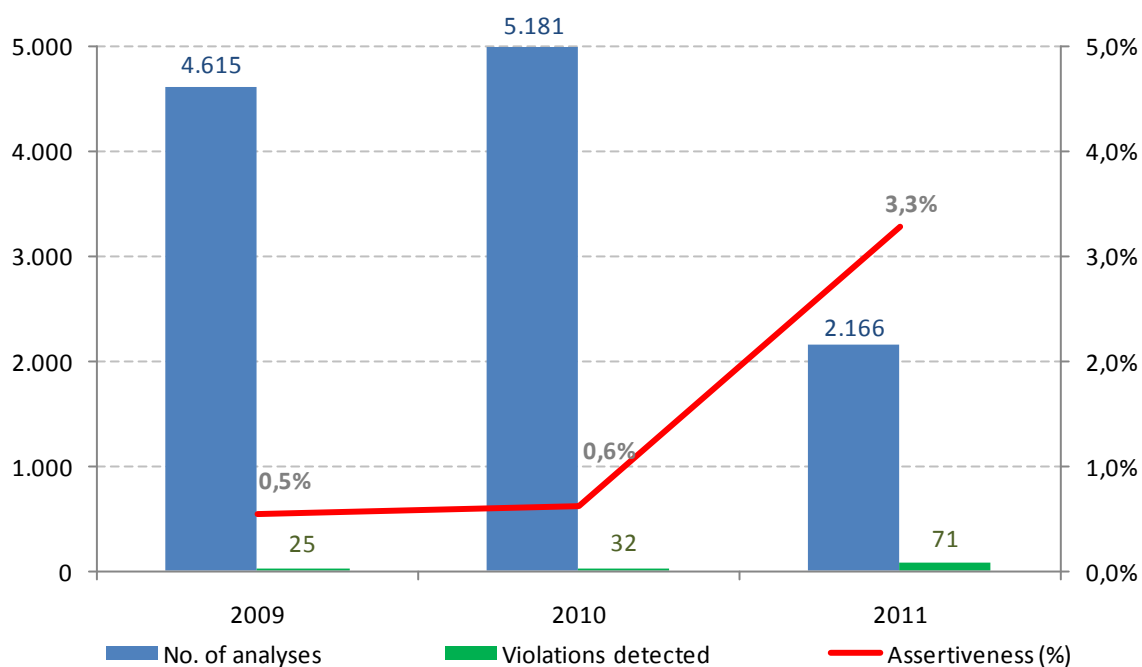
All transactions performed in the markets managed by BM&FBOVESPA are analyzed by computer software that issues alerts on cases requiring further investigation.

In 2011 BSM extended the improvements begun in second-half 2009 by upgrading the filters and parameters used in market supervision. The focus for the upgrades was supervision of trading on the Bovespa segment, particularly to detect market abuses such as price manipulation and insider trading.

Figure 1 shows the enhanced efficiency of the research conducted by BSM's staff due to improvements made to the data mining filters and parameters used to analyze transactions. Market supervision has become significantly more efficient and assertive, resulting in the detection of a larger number of violations based on the analysis of a far smaller number of alerts. In 2009 and 2010 less than 1% of the analyses effected by BSM resulted in the detection of evidence of irregularities. In 2011 the proportion exceeded 3%.

These improvements enabled BSM's technical staff to focus on transactions displaying clear signs of irregularities.

Figure 1
Assertiveness of investigation of market manipulation



In addition to upgrading the parameters for existing data mining software, in fourth-quarter 2011 BSM implemented a new market supervision system. The platform chosen was SMARTS Integrity, used by regulators, self-regulatory organizations and exchanges in the world's major markets (the United States, Canada, the United Kingdom and Australia, among others). It will strengthen BSM's supervision and, with the necessary adaptations to the characteristics of the Brazilian market, is expected to drive strong results from 2012.

BSM is also responsible for analyzing transactions involving securities issued by BM&FBOVESPA, pursuant to CVM Instruction 461 (2007), article 58, to ensure that the general rules for issuers are also observed by BM&FBOVESPA as an issuer of shares in the company for trading in the Bovespa segment.

It is important to note that BSM carries out its activities in close collaboration with CVM, which accompanies all its work and receives immediate alerts in the event of serious suspected violations. BSM also periodically sends CVM reports on evidence of irregularities and any non-conformities detected in trading.

Table 1 summarizes the market supervision activities performed in 2011 and compares them with the two previous years.

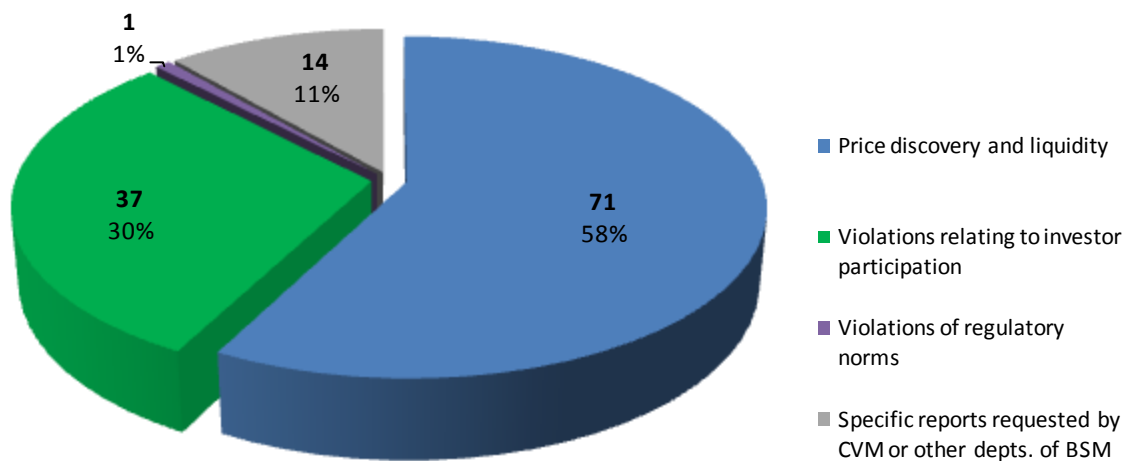
Table 1
Market Supervision Numbers

Type of analysis	2009		2010		2011	
	Analyses	Reports	Analyses	Reports	Analyses	Reports
Behavior of asset and derivative prices and liquidity (artificial demand, supply or pricing, price manipulation, fraudulent trading, unfair practices etc.)	4,615	25	5,181	32	2,166	71
Participation by investors (fraudulent trading, money laundering, irregularly exercising activities in the securities market etc.)	2,124	31	211	25	408	37
Observance of BM&FBOVESPA's operating rules and CVM Instructions 168, 358 etc. ¹	5,931	10	5,854	3	2,143	1
Requests from CVM and other authorized bodies or departments of BSM	na	15	431	13	272	14
Total	12,670	81	11,677	73	4,989	123
Assertiveness of analysis (Reports/Analysis)		0.6%		0.6%		2.5%

¹ The number of analyses relating to compliance with CVM Instructions 168, 286 and 358 fell in 2011 because this activity migrated to BM&FBOVESPA's Operations Department, leaving BSM with the responsibility of enforcing compliance by the Exchange.

The reports generated ("Market Oversight Reports") are documents that reflect strong evidence of irregularities and may give rise to enforcement measures. Figure 2 shows the types of probable violation or request that generated reports in 2011.

Figure 2
Market Oversight Reports Generated in 2011



Thus almost 60% of the probable violations detected were classified under asset and derivative price discovery or liquidity. Such violations typically relate to market manipulation and insider trading.

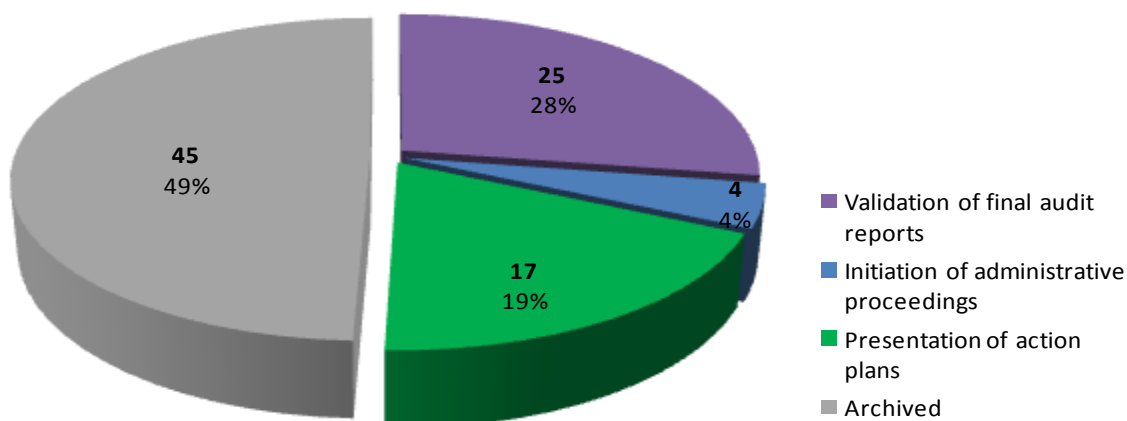
Reports on investor participation, which also accounted for a large proportion of the total, typically relate to the detection of irregular activities in the securities market or suspected money laundering. These are immediately reported to the Financial Activities Control Council (COAF), a Financial Ministry agency whose remit is to receive and analyze complaints of suspected illicit activity associated with money laundering (Table 2).

AUDITING OF PARTICIPANTS

BSM is responsible for direct supervision of participants in the markets managed by BM&FBOVESPA. It discharges this duty by auditing institutions to examine compliance with the applicable laws and regulations. These audits appraise participants' infrastructure and processes, including such items as information technology and online trading platforms ("home broker" software), as well as operating procedures for customer registration, order reception and registration, specification of participants, collateral management, settlement and custody.

In March 2011, BSM completed field work for the 2010 Auditing Program begun in February 2010. The program involved inspection of 91 participants. Figure 3 summarizes the results of these audits.

Figure 3
Audits of Participants' Operations – 2010 Program



Four of the 66 audit reports that had been completed by December 31, 2011, gave rise to administrative proceedings owing to the gravity of the irregularities detected. In another 17 cases an action plan was requested. Action plans are commitments by participants to implement risk mitigation measures designed to avoid a repetition of

the non-conformities identified in audits. Another 45 cases were dismissed owing to low risk, and 25 reports were sent to the participants concerned for comment.

It should be noted that the audits conducted in 2011 incorporated important enhancements into the analyses relating to money laundering prevention, including thoroughly reformulated tests such as a detailed analysis of processes and systems implemented by institutions to prevent money laundering and concealment.

As can be seen from Table 2, these enhancements led to a significant increase in the number of notices filed by BSM with COAF, mainly regarding deficiencies detected by audits of participants' operations.

Table 2
Notices to COAF

Originating BSM Department	2009	2010	2011
Market Oversight	9	3	17
Audits of Participants	0	0	43
Legal	0	0	2
Total	9	3	62

The 2011 Operational Audit Program prioritized participants not audited under the 2009 and 2010 Programs. Nine institutions were in this situation because they had obtained access to the trading environments managed by BM&FBOVESPA after 2009. Field inspections of these institutions were carried out in August and the final audit reports are being consolidated.

Audits performed under the regular operational audit program included other specific activities such as semiannual audits of online trading connections ("home broker" platform), required by CVM Instruction 380/02, and custody audits focusing on transfers of assets between custody accounts.

Audits of autonomous investment agents are also worth noting. For the first time these agents were submitted to specific audits. The program included visits to 135 autonomous investment agents' offices, during which physical structure and technology were audited, as well as procedures, among other items.

BSM also carried out specific audits requested by CVM and other internal departments.

Finally, specific audit reports were generated to support proceedings initiated by complaints to the Investor Compensation Mechanism (MRP) and administrative proceedings initiated as part of BSM's enforcement activities.

A summary of the activities performed by BSM's Participant Auditing Unit is presented in Table 3, which compares the numbers for 2011 with those for the previous two years.

Table 3
Participant Audits

Type of audit	2009	2010	2011
Operational audits of participants ¹	81 (2)	75 (3)	33 (4)
Audits of autonomous investment agents	-	-	135
Audits of custodians (asset transfers) ⁵	-	1	1
Audits of online trading connections ("home broker") ⁶	2	2	1
Reports to support administrative proceedings	2	12	11
Audits relating to MRP proceedings	62	79	66
Reports requested by CVM	2	4	1
Reports requested by Ombudsman	25	3	-
Reports requested by departments of BSM	3	29	26
Total	176	204	275

(1) Until 2011, operational audits were performed at different times of year. For the 2009 Audit Program, field work began on March 2009 and ended in January 2010. For the 2010 Program, work began in February 2010 and ended in April 2011. For the 2011 Program, which included audits of seven participants not audited under the 2009 and 2010 programs, field work took place in August 2011.

(2) 81 out of 89 participants in the 2009 Program.

(3) 8 participants in the 2009 Program and 67 in the 2010 Program.

(4) 24 participants in the 2010 Program and 9 in the 2011 Program.

(5) Custody audits are planned so as to cover all asset transfers performed by several custodians in a given period.

(6) Online trading connections are audited semiannually for all participants that offer this service to their customers.

ADMINISTRATIVE PROCEEDINGS AND APPLICATION OF PENALTIES

An effective system of market supervision requires penalization of infringements. This disciplinary activity aims to improve the standard of participants' conduct and their internal controls, and to prevent repetition of the violations concerned.

Infringements of laws, rules and regulations by participants in BM&FBOVESPA's markets may be judged in administrative proceedings held by BSM. Participants subject to investigation and possible penalization in such proceedings include both financial institutions and their representatives or agents (natural persons).

Administrative proceedings are initiated in order to investigate alleged irregularities and may result in the following penalties pursuant to BSM's bylaws:

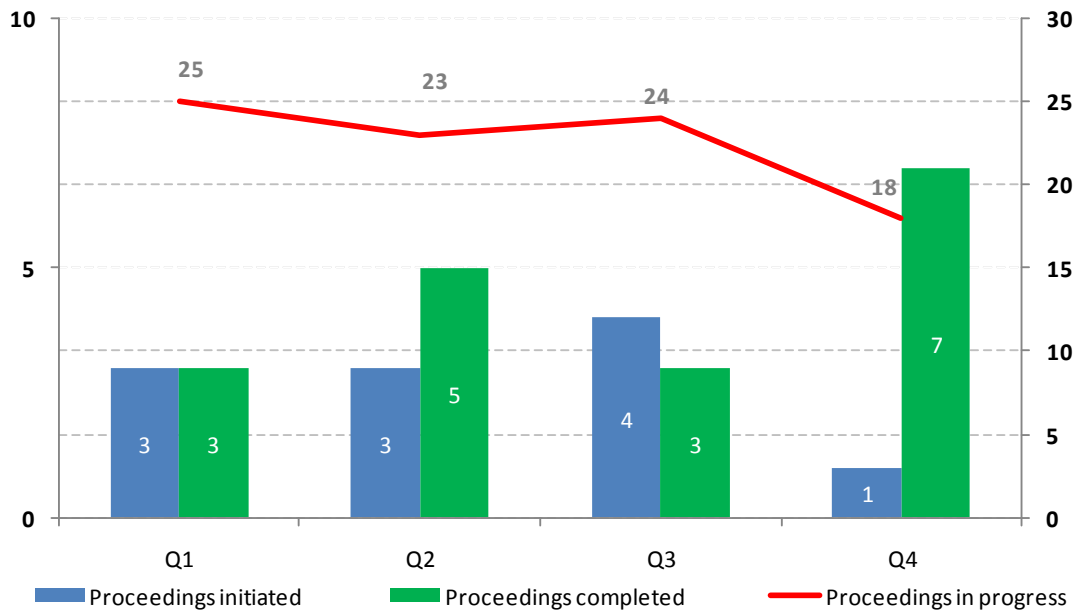
- ✓ A warning
- ✓ A fine
- ✓ Suspension lasting up to 90 days
- ✓ Temporary disqualification lasting up to ten years
- ✓ Other penalties provided for by BM&FBOVESPA's regulatory and operating rules

Administrative proceedings may also conclude with a consent order. This instrument, which is used by regulators and self-regulatory organizations including CVM, typically requires a participant to undertake to implement measures designed to prevent any repetition of the offence or offences that gave rise to the proceedings. Payment of monetary compensation may also be required.

When a consent order is signed, the administrative proceeding is suspended until the obligations assumed are discharged, in which case the proceeding is closed. If the undertakings specified in the consent order are not completely discharged, the administrative proceeding resumes.

Figure 4 shows the numbers of administrative proceedings initiated, closed and still in progress at BSM during the course of 2011. BSM began the year with 25 proceedings in progress, initiated 11 new proceedings, and closed 18 during 2011. Eighteen proceedings were in progress at year-end.

Figure 4
Administrative Proceedings in 2011



Six of the administrative proceedings initiated arose from investigations conducted as part of BSM's surveillance activities (two by Market Supervision and four by Participant Auditing), while five arose from MRP claims,⁵ as shown in Figure 5.

⁵ Administrative proceedings may be initiated to judge irregularities identified during the investigation phase of MRP cases, regardless of the verdict reached in the latter (i.e. whether or not the investor's claim is accepted).

Figure 5
Origin of Administrative Proceedings Initiated in 2011

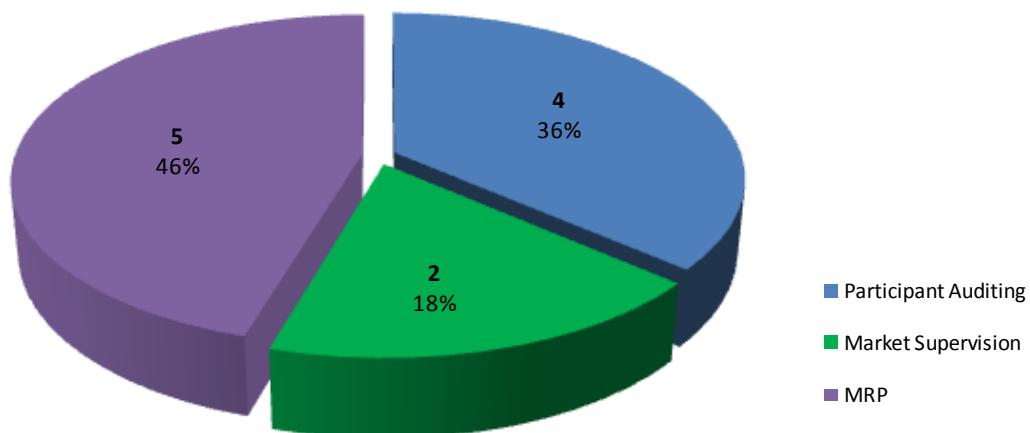
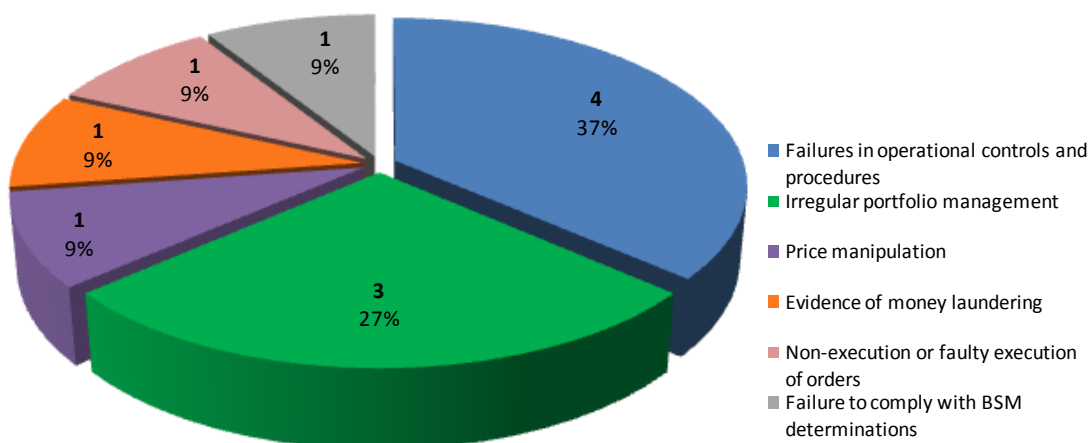


Figure 6 shows the main problems that gave rise to administrative proceedings initiated in 2011.

Figure 6
Subjects of Administrative Proceedings Initiated in 2011



The number of proceedings closed in 2011 compared with the previous three years can be seen in Table 4. It is important to note that proceedings typically have more than one defendant (the participant and the responsible officer, for example). The table shows the number of administrative proceedings closed, the number of

defendants involved and, for all defendants in aggregate, the number of convictions, acquittals and consent orders. In the case of convictions, the penalties are also listed.

Table 4
Outcomes of Completed Administrative Proceedings

Year	No.	Defendants	Consent orders	Decision		Penalties			Total value ^A R\$(000)
				Conviction	Acquittal	Warning	Fine	Disqualification	
2008	12	12	9	3	-	0	3	0	465
2009	12	24	22	1	1	1	0	0	1005 ^B
2010	7	9	7	2	-	0	1	1	1.028
2011	18	33	16	14	3	7	5	2	3.591

(A) Total value corresponds to the sum of the fines applied and the monetary compensation paid pursuant to consent orders. In both cases, total value refers to the total amount paid by defendants in

(B) Includes one consent order signed as part of an inquiry (INQ-019/2008).

In 2011, 18 proceedings were closed. They involved 33 defendants (17 brokerage firms, eight responsible officers, six traders, one autonomous investment agent, and one direct settlement participant). Sixteen of the 33 defendants signed consent orders and discharged all their obligations under those orders. Three were acquitted and 14 were convicted, with the penalties shown in Table 4.

It is important to note that all decisions in administrative proceedings are public and available on BSM's website (in Portuguese).⁶

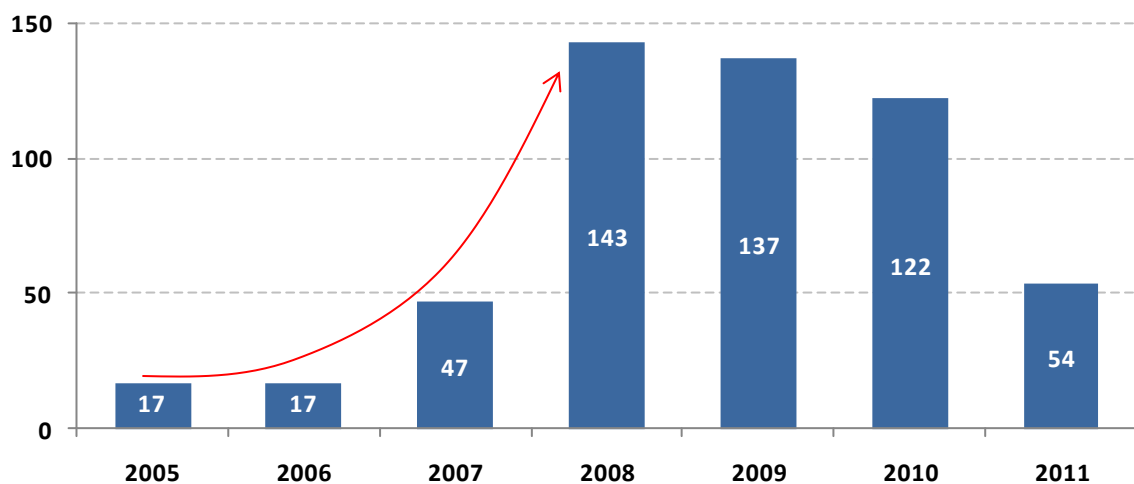
⁶ www.bsm-autorregulacao.com.br (Supervisão de Mercado / Processos Adm. Concluidos).

INVESTOR PROTECTION MECHANISM (MRP)

BSM administers the Investor Protection Mechanism (MRP), whose purpose is to assure compensation for any losses suffered by investors as a result of action or omission by market participants. Accordingly, BSM is responsible for analyzing claims filed by investors, instituting MRP proceedings where appropriate, and investigating the facts of each case. Decisions in MRP cases are made by BSM's Supervisory Board.

A steep rise in the number of MRP claims in 2007, and more intensely in 2008, greatly increased BSM's caseload, causing a substantial backlog.

**Figure 7
 Number of MRP Claims**



BSM's efforts to address this backlog, including restructuring of the team of auditors responsible for the technical reports on which legal opinions are based and the team of lawyers responsible for initiating proceedings and conducting investigations, as well as rationalization of its procedures, began to have tangible effects in mid-2009, when the number of cases completed began to rise rapidly. Thanks to these efforts, the backlog of claims and ongoing proceedings, which peaked at 174 in July 2010, was gradually reduced, reaching 118 at end-2011.

Table 5
MRP: claims filed, cases completed and ongoing cases

	2008	2009	2010	2011
Initial caseload	21	122	172	159
Claims filed	143	137	122	54
Cases completed	42	87	135	95
Final caseload	122	172	159	118

Fifty-four new claims were filed during the year, and 95 cases were concluded; of these, 22 were dismissed for lack of evidence or for being filed later than the statutory time period,⁷ and eight were closed because the parties settled or the plaintiff withdrew the claim. Thus 65 cases were judged by the Supervisory Board, with the results shown in Table 6.

Table 6
MRP: Cases processed

	No.	%
Archived	22	23%
Settlement or withdrawal	8	8%
Claims rejected	49	52%
Claims accepted (in toto or in part)	16	17%
Total	95	100%

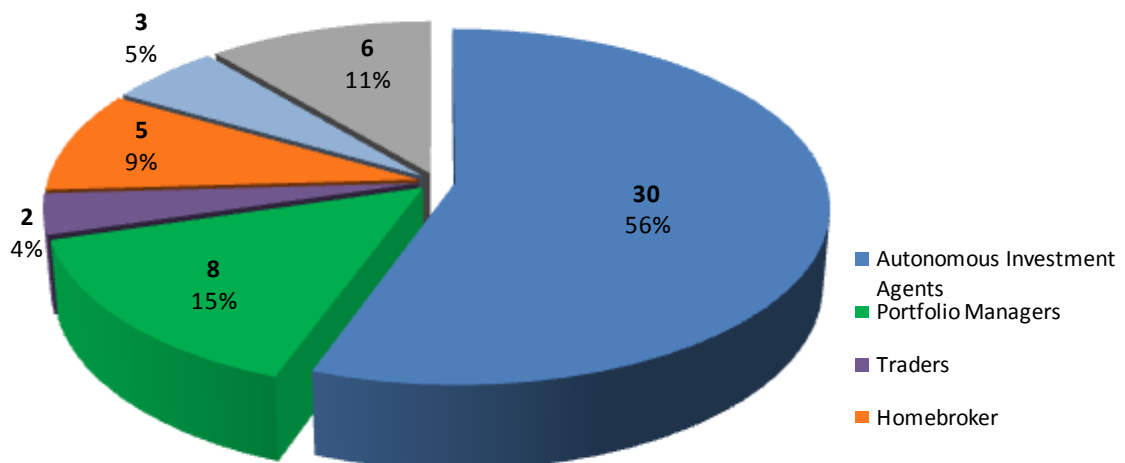
Of the 65 claims adjudicated by the Supervisory Board, 49 were rejected and 16 were accepted in toto or in part. The total amount of compensation paid in response to claims accepted in toto or in part was R\$408,900.⁸

⁷ Pursuant to CVM Instruction 461, an investor has 18 months to file an MRP claim from the date on which the action or omission justifying the claim occurs (article 80). The same CVM Instruction also specifies the circumstances in which compensation must be paid (article 77).

⁸ This amount includes both monetary compensation and redress in the form of assets, which are valued at the closing price on the date of the compensation order. It does not include claims accepted in part where the plaintiff appealed to CVM and the appeal had not yet been heard.

The main problems raised by investors in MRP claims related to autonomous investment agents, irregular portfolio management by unauthorized persons, and deficiencies in online trading platforms (“home broker” software).

Figure 8
Subjects of MRP Claims in 2011



It is important to note that violations identified during MRP cases may require the initiation of administrative proceedings against the offender, even where compensation is denied because the claim was filed late or for any other reason.

Thirteen of the 95 MRP cases closed in 2011 were sent to the Legal Department for analysis and enforcement of penalties for violations committed by participants, their employees or agents.

REVIEW OF LEGAL AND REGULATORY FRAMEWORK

BSM actively participates in discussions of enhancements or additions to the legal and regulatory framework. To this end it is in permanent contact with regulators and other self-regulatory organizations, especially CVM and BM&FBOVESPA.

BSM submitted suggestions as part of the public hearings held in 2010 on the CVM Instructions that govern the activities of autonomous investment agents (Instruction 497) and investment clubs (Instruction 494), both issued in 2011.

Another instruction issued in 2011 with important enhancements to the regulatory framework was CVM Instruction 505, which contains new rules and procedures for securities transactions in regulated markets and enters into force on April 2, 2012. Public hearings on this instruction ended in 2009 and BSM also submitted comments in this consultation.

Another public consultation initiated by CVM in 2011 and under discussion at BSM refers to a specific rule on suitability, i.e. the duty to verify the suitability of a recommended product or service to the customer's profile.

It is also worth highlighting BSM's participation, alongside BM&FBOVESPA, ANBIMA and other institutions, in a working group established to propose a review of CVM Instruction 89 governing the activities of custodians, bookkeepers and central securities depositories. Its findings will be presented to CVM in 2012.

In November CVM approved BSM's new bylaws with important enhancements, especially with regard to institutional representation to the market, CVM and BM&FBOVESPA's Board of Directors, now the duty of the Chair of BSM's Supervisory Board. The aim of this change is to bolster BSM's participation in discussions at home and abroad on regulation and self-regulation.

Moreover, the new configuration of the Supervisory Board, which now has 12 members (instead of ten), and the creation of a Strategic Committee comprising five

of its members are expected to enhance the organization's strategic planning process and enable the work program to be monitored more effectively.

INTERNATIONAL ACTIVITIES

To reinforce its image as a nationally and internationally recognized self-regulatory organization, BSM participates in various forums at home and abroad, and seeks to contribute increasingly to ongoing discussions.

One of the highlights in 2011 was its participation in the 36th Annual Conference of the International Organization of Securities Commissions (IOSCO), which discussed the role of regulators and self-regulatory organizations in mitigating systemic risk and the importance of investing in investor education.

Another important event was the meeting of IOSCO's Self-Regulatory Organizations Consultative Committee (SROCC), where supervision of market participants and proposed amendments to IOSCO's organizational structure were discussed, among other topics.

It is also important to note that BSM, jointly with CVM and the US Securities and Exchange Commission (SEC), organized a training course entitled "Securities Market Supervision and Enforcement" in São Paulo on May 2-6. It was attended by representatives of the Brazilian Judiciary, Federal Prosecution Service (MPF), Federal Police (PF) and Financial Activities Control Council (COAF), as well as the US Financial Industry Regulatory Authority (FINRA), SEC and Federal Bureau of Investigation (FBI), and the staff of BSM and CVM.

The syllabus included the coordination of public and private institutional efforts to prevent and combat capital market offences in the administrative, civil and criminal spheres, as well as a discussion of enforcement structures, insider trading, market manipulation and accounting fraud.

BSM also participated in the following training events held in other countries:

- ✓ SMARTS Market Surveillance Training Program
New York – Organized by Nasdaq OMX.

- ✓ US Commodity Futures Trading Commission Market Supervision and Enforcement Training Program
Chicago – Organized by CFTC.

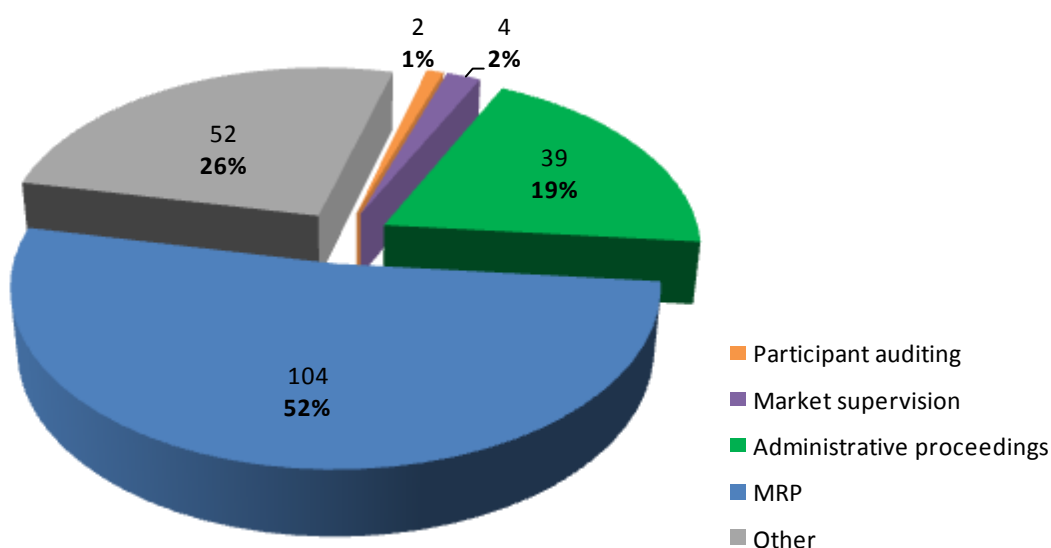
- ✓ FINRA Annual Conference
Washington – Organized by FINRA.

- ✓ Intermarket Surveillance Group – ISG Seminar
San Diego – Organized by FINRA.

PUBLIC INFORMATION SERVICE (SAP)

BSM's Public Information Service receives opinions, criticisms and suggestions on the activities of BM&FBOVESPA and its participants as well as BSM itself. In 2011 it received 201 comments or requests for information on the topics shown in Figure 9.

Figure 9
Public Information Service



The average time taken to respond to a request or comment placed by telephone or via the websites of BSM and BM&FBOVESPA was less than nine days.

ACKNOWLEDGMENTS

Management wishes to express its thanks to employees, the Supervisory Board, BM&FBOVESPA S.A., market participants and the regulatory agencies for the results achieved in 2011, which helped strengthen BSM's position as a nationally and internationally recognized self-regulatory organization.

São Paulo – April 11, 2012