

Panel 4

BSM Examination:

The methodology for evaluating the results of Participant's examination

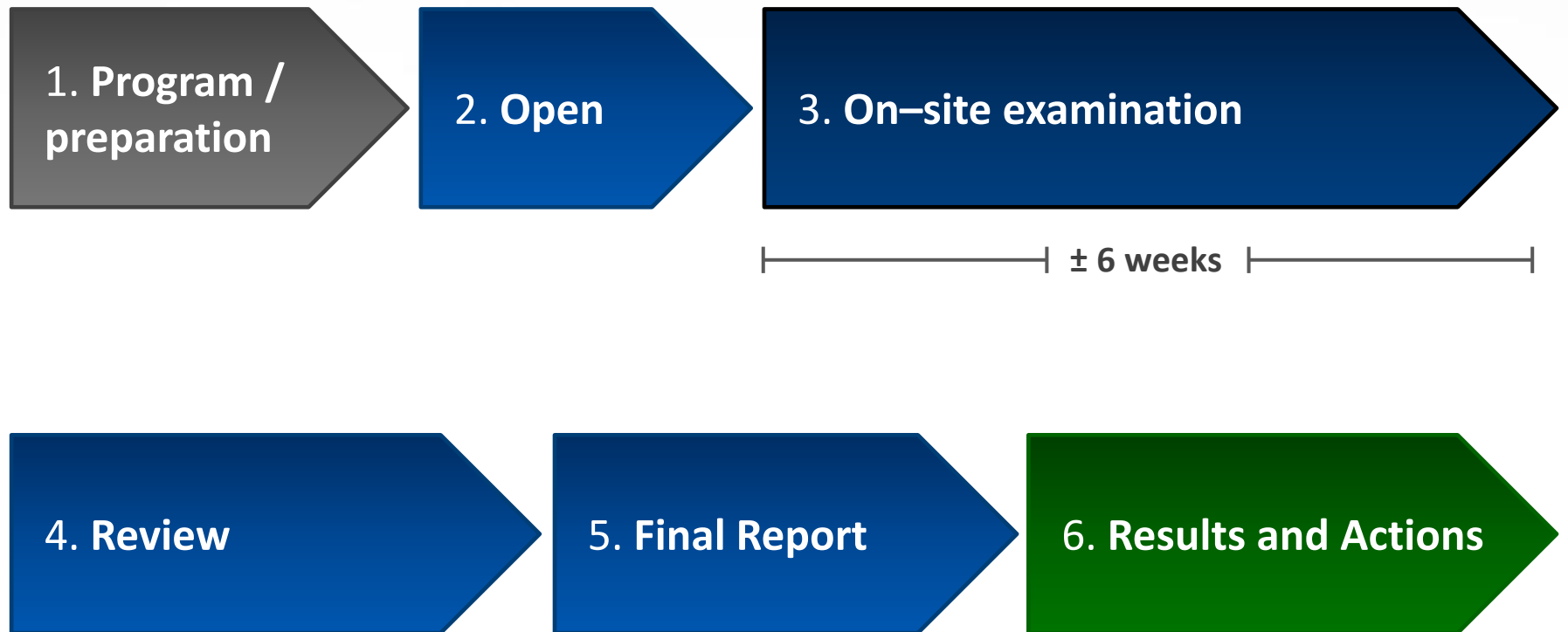
7th IOSCO AMCC Training Seminar

Tokyo, April 2014

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www.bsm-autorregulacao.com.br

- Types of Examination
 - Routine examination (“Operational Examination”)
 - ✓ Process, Internal Control and IT infrastructure environment
 - Pre-operational examination
 - Cause examination
 - ✓ To verify specific itens
 - Off-site examination
 - ✓ By indicators
 - DMA examination



- 16 Macro-process
 - *Suitability*
 - Record of clients/investors
 - Execution of orders
 - Settlement of transactions
 - Custody of assets
 - Risk management
 - Anti-Money Laundering
 - Investor advisor
 - Investment Clubs
(a type of collective investment scheme)
 - Integrity
 - Financial and equity requirements
 - Information Technology
 - ✓ Information security
 - ✓ Business Continuity
 - ✓ Systems monitoring
 - ✓ Change management
 - ✓ Infrastructure support

Participant's doubt: How am I in relation to the others Participants?

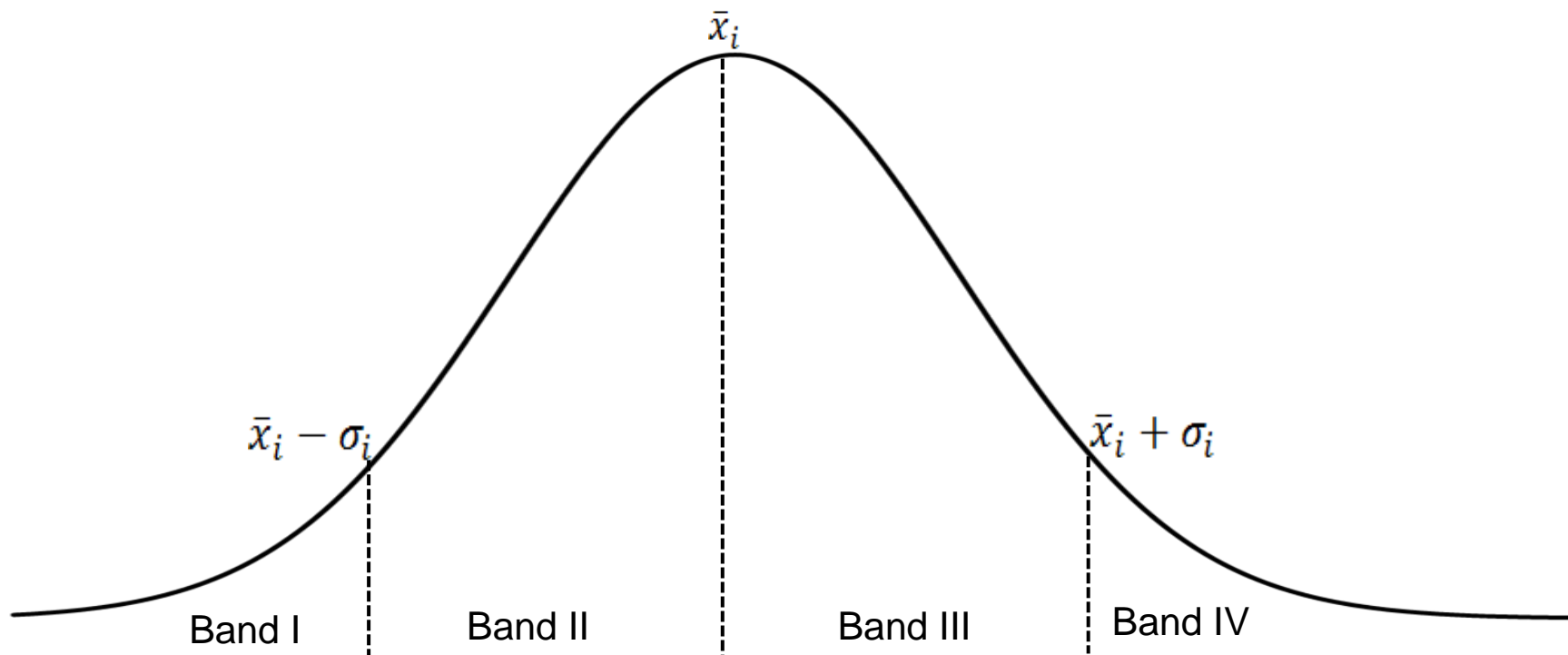
- To answer this question, the BSM created a methodology to rank the results of the Participant's examinations
- This mechanism enables comparative analysis of the examination results (participant with his own past and participant vis-à-vis other participants)
- The Participants with high ranks have the benefit of not being audited in follow one or two next programs (the examination can be maintained if the participant requests)
- The standardized score obtained by the participant is intended only to improve controls and should not be used in advertising or for commercial purposes
- This methodology optimizes the BSM allocation of resources and at the same time generates a positive incentive for participants to enhance their controls seeking to receive the benefit
- From the point of view of the governance of the Participants, this mechanism works as an indicator of the progress of the internal control system. It also works as a mechanism for encouraging Participant's governance

- Uniform criteria for all participants
- Comparative evaluation based on:
 - Norm and regulation compliance
 - Performance among other participants
 - Performance through the time (past and present examination)

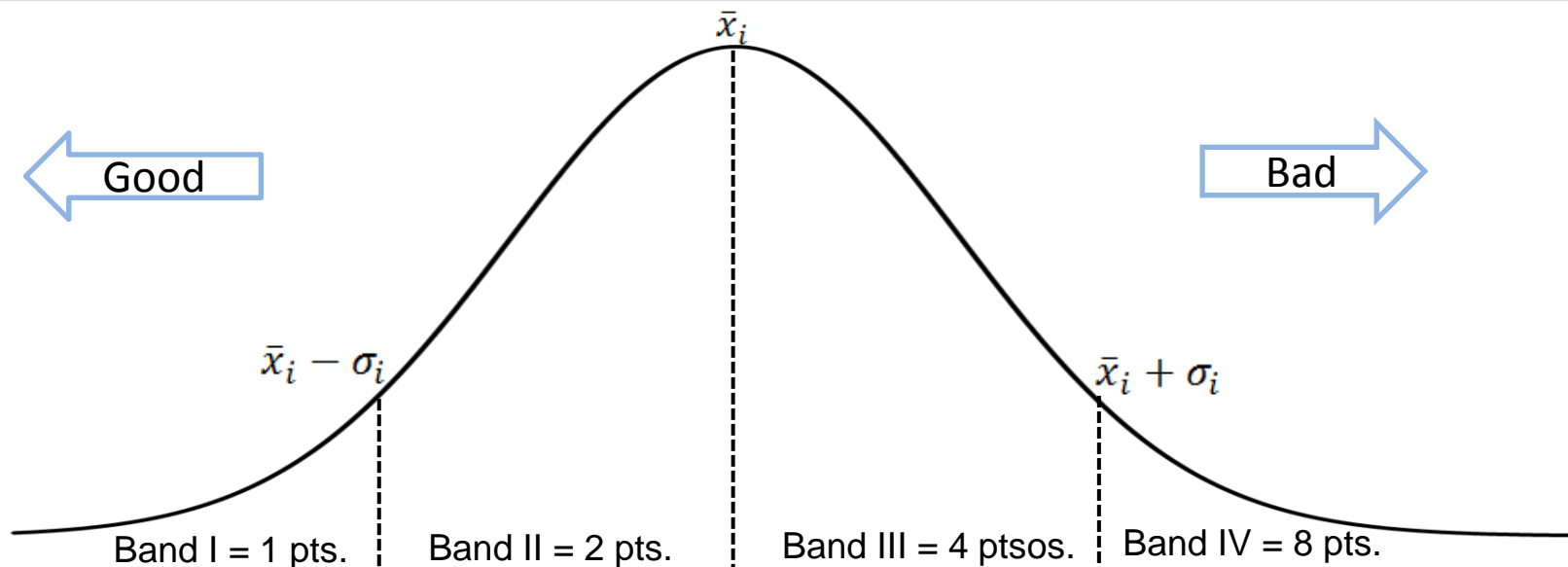
- Each participant has a final grade on each process (group of items)
- The final grade is formed by: “item grade = “grade” x “weight”
 - ✓ Grade: “0.5” to “5”, based on number of non-compliance items
 - ✓ Weight: “0.5” to “5”, based on criticality and gravity of the non-compliance
 - ✓ Final Grade = Sum of item grade
- Standardization of Participant Final Grade:
 - Calculate Average and Variance of each process
 - Divides all grades in 4 bands and attributes an exponential standard grade for each process (1,2,4 and 8)
 - Sum all the participant’s process grade
 - Less Grade → Better ranking

Standardization of the final grade

Each process P_i in all Participants



Standardization of the final grade



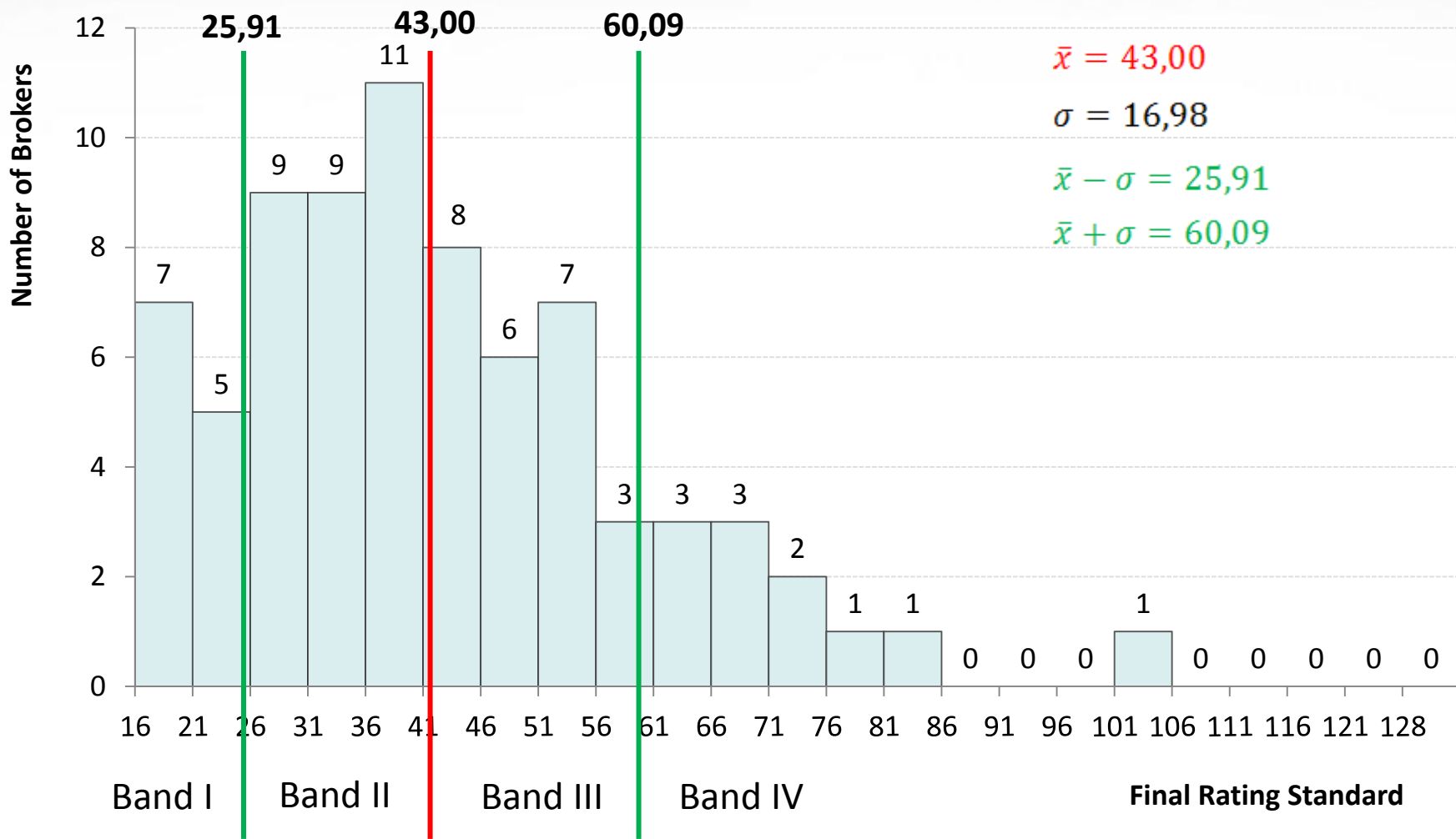
P_{1j}	1	-	-	-
P_{2j}	-	-	4	-
P_{3j}	-	2	-	-
...
P_{16j}	-	-	-	8

Final Grade $\sum_{i=1}^{16} P_{ij}$ *Total Points in Participant j*

Minimum: $16 \times 1 = 16$ points

Maximum: $16 \times 8 = 128$ points

Final Rating Standard Frequency Distribution



- Final Standard Grade in Band I
and no grade process in Band IV



1 follow annual program exemption

- All process in Band I



2 follow annual program exemption

- Final Standard Grade in Band I
and no Process in Band IV
and Standard Grade in Band I at last examination



2 follow annual program exemption

- 2008 to 2012
 - 100 % of all Participants (78 brokers in 2012)
- 2013
 - BSM created a methodology to rank the results of the Participant's audits
 - 2013 (based on 2012 examination's results)
 - ✓ 12 participants were exempted for 1 year
 - 2014 (based on 2013 examination's results)
 - ✓ 3 participants were exempted for 1 year
 - ✓ 1 participant were exempted for 2 years



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