

Demutualization and International Trends in the Stock Exchange Market

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BOVESPA

A Bolsa do Brasil

Summary

- ✓ Trends since the 90's and their Consequences
- ✓ An Overview of the Capital Market in the World
- ✓ The Demutualization Process
- ✓ Perspectives for the Capital Market in Latam

Trends since the 90's and their Consequences

Trends since the 90's

GLOBALIZATION

Overseas competition for listing and trading

CLIENTS' DEMANDS

Liquidity, trading efficiency, new products and lower costs

STOCK EXCHANGES

TECHNOLOGICAL ADVANCES

Algorithms and Program Trading
Outcome: commissions reduction

ALTERNATIVE TRADING SYSTEMS

Trading through ECNs
and internalization of orders

Consequences

CONVERGENCY

Cash Market
and Derivatives in the
same stock exchange

ELETRONIC TRADING PLATAFORMS

Total replacement of the
Open-Outcry trading scheme

STOCK EXCHANGES

DEMUTUALIZATION

Transparency and
Strategic flexibility

CONSOLIDATION

Challenges: valuation
expectation and anti-trust
issues

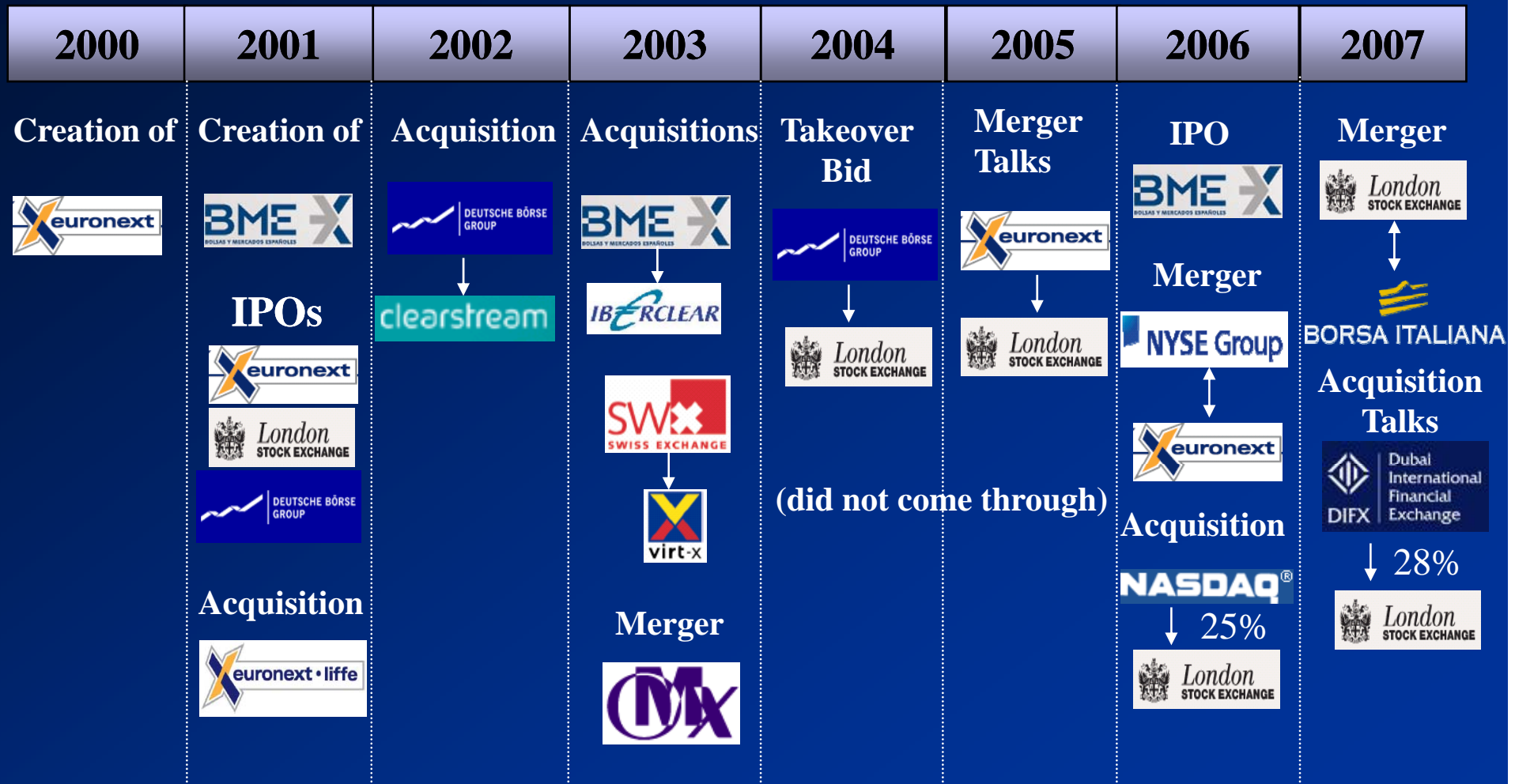
REGULATION

Conflicts: jurisdiction and
self-regulation

An Overview of the Capital Market in the World

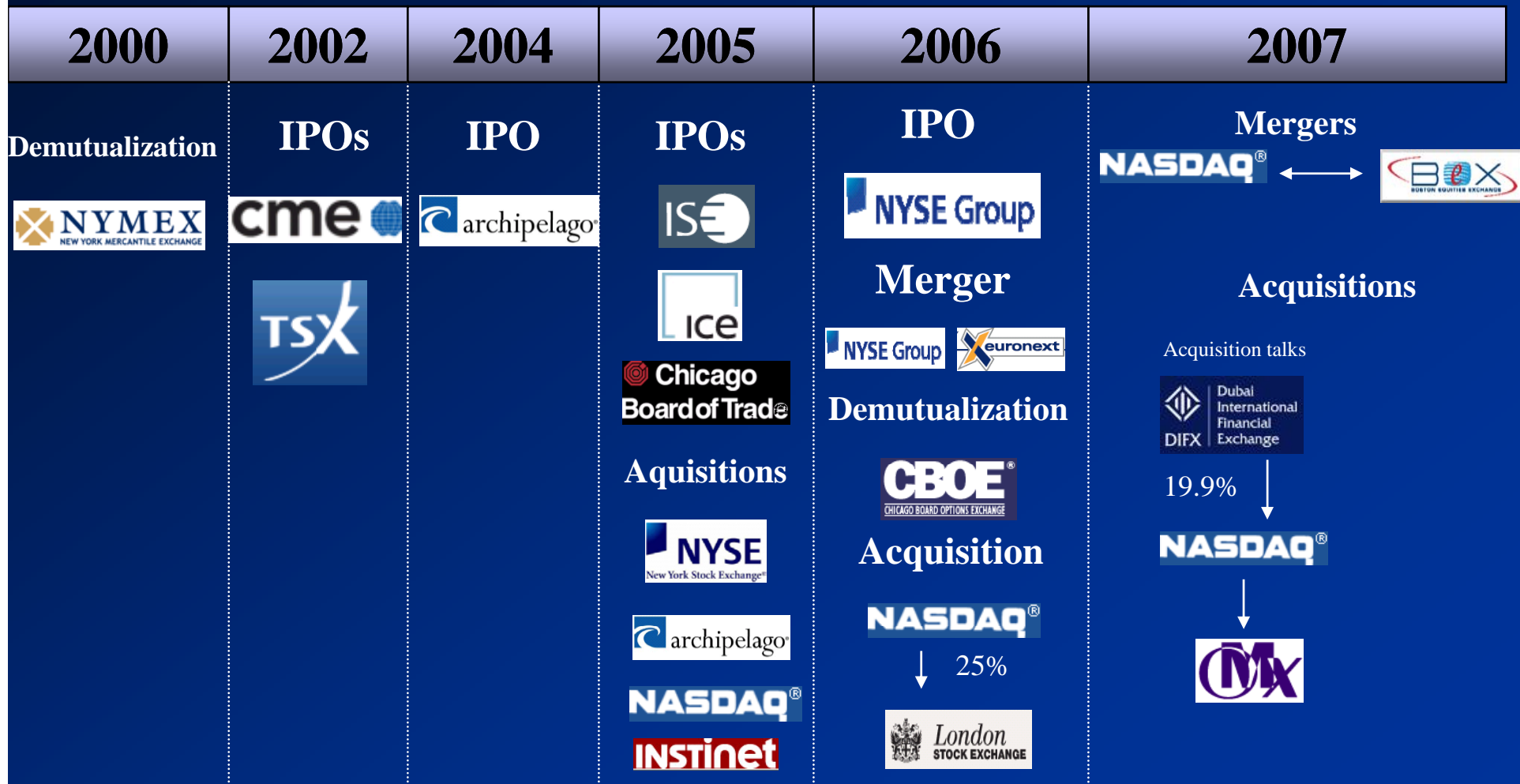
European Landscape

Mergers, Demutualization and IPOs



North-American Landscape

Mergers, Demutualization and IPOs



Asian Landscape

Mergers, Demutualization and IPOs



Probable Listings on the way...

North America

- ✓ NYMEX
- ✓ CBOE
- ✓ New York Board of Trade

Asia

- ✓ Bombay Stock Exchange
- ✓ Korea Exchange
- ✓ Tokyo Stock Exchange

Shares' Price Evolution of Listed Exchanges



*Nyse and Nasdaq 11/21/2007

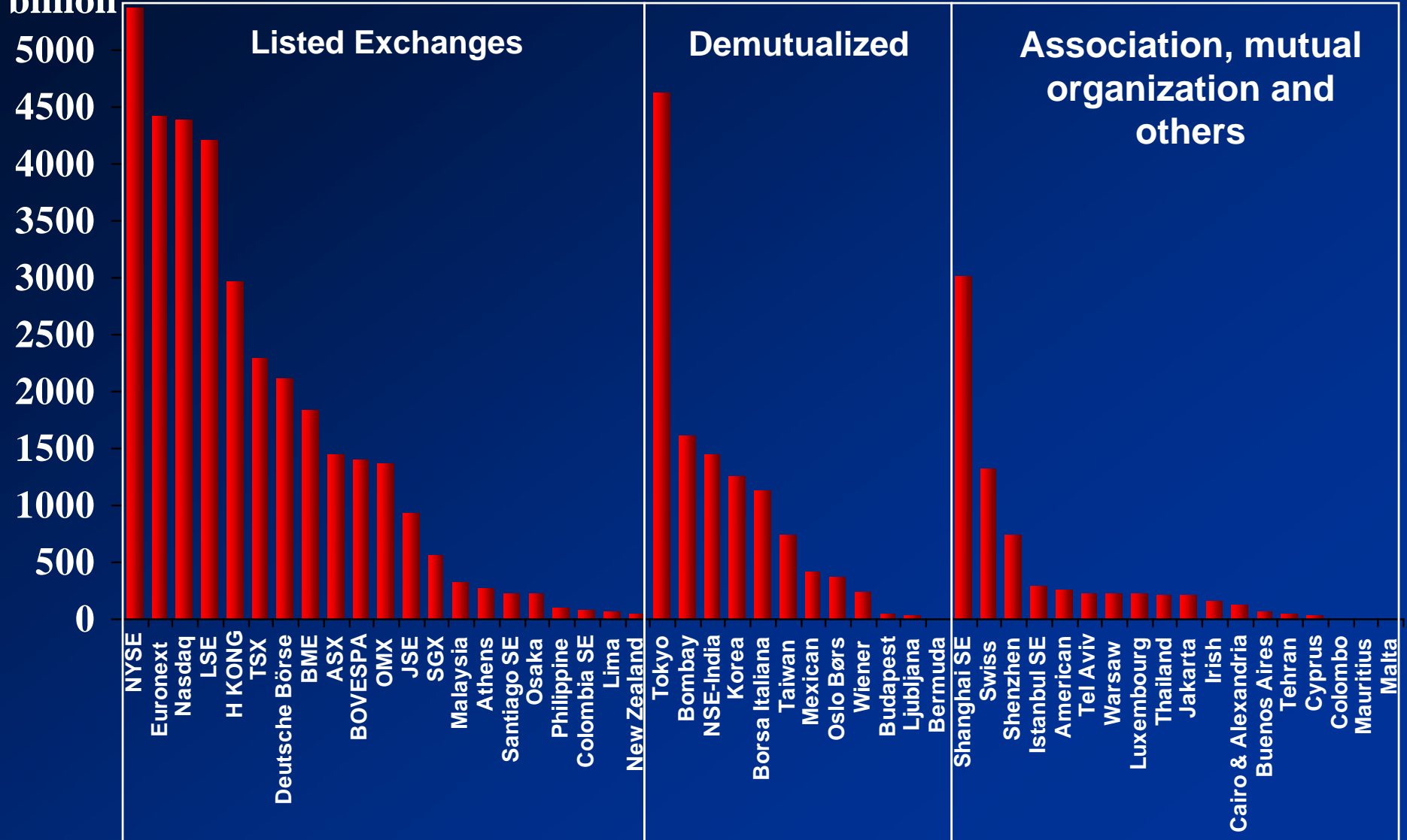
*Euronext 7/11/2007

Source: Bloomberg

Market Capitalization

USD
billion

Source: WFE


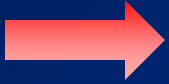


The Demutualization Process

The Reasons to Demutualization

- ✓ Strengthening before the international competition and adjusting to an integrated markets dynamic
- ✓ Higher flexibility and response velocity to the changes in the domestic and international scenario
- ✓ Capital raising to new investments
- ✓ Liquidity and valorization of the brokerage houses' (members) investments
- ✓ Strengthening the commercial focus

Demutualization Stages

- ✓ 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*

Changes and Needs

Resulting from the Demutualization and Merges

- ✓ **Separation between the “trading access” and the “decision making power”**
 - The trading access and the others services provided by the Stock Exchange are, generally, separated from the ownership of shares
 - The decision-making power now belongs to the shareholders (that will not be, necessarily, the former brokerage houses or the former members)
- ✓ **Corporate governance reinforcement and strategy**
 - For-profit corporation, the management will be more competitive
 - Adoption of a “Business Model”
- ✓ **Regulation**
 - Changes in the self-regulation model after the demutualization
 - Jurisdiction conflicts in the merger process

Trading Access

Some adopted models

✓ 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

Ex. NYSE

✓ Issue of shares with different classes

- Voting right Class
- Trading access right Class

Ex. CME e NYMEX

Regulation

Issues in discussion at IOSCO

✓ **Jurisdictional Conflicts**

Anti-trust issues and difficulties to conciliate the regulators' requirements in the regional e international mergers

✓ **Self-Regulation Function of the Stock Exchange**

As a commercial entity, for profit organization, can a Stock Exchange keeps satisfactorily its self-regulatory function?

Profits maximization

X

Fair market operating

Self-Regulation

3 Alternatives

- ✓ **The Stock Exchange keeps the self-regulatory activities**
 - If the stock exchange acts in a relapse way regarding its regulatory activities, it can cause damage to its commercial image
 - The stock exchange has a better display to perform the trading supervision as well as the compliance of the public companies. It is its task providing a regulated market
- ✓ **Dissociation between the commercial activities and the regulatory activities inside the demutualized stock exchange**
 - Launch of a non-for-profit entity to take care of the regulation activities, under the same holding, but constituted by an independent board and an independent management
- ✓ **Outsourcing of the regulatory activities**
 - Launch of a non-for-profit entity, fully disentailed and constituted by members that do not have entails with it or interest in the stock exchange activities
 - Regulatory activities fully attributed to a governmental body.

Perspectives for the Capital Market in Latam

Some Possibilities...

- ✓ Demutualization and IPO

Currently, the Stock Exchanges from São Paulo, Santiago, Lima, El Salvador, Colombia and Panama are listed, while the Stock Exchanges from Mexico, Bolivia and Caracas are demutualized

- ✓ Mergers and acquisitions by North-American and European Stock Exchanges

- ✓ Market integration

Ex. Pilot Project BOVESPA-BMV

Demutualization in Brazil

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



The whole process, which culminated in BOVESPA's IPO, was concluded in 16 months

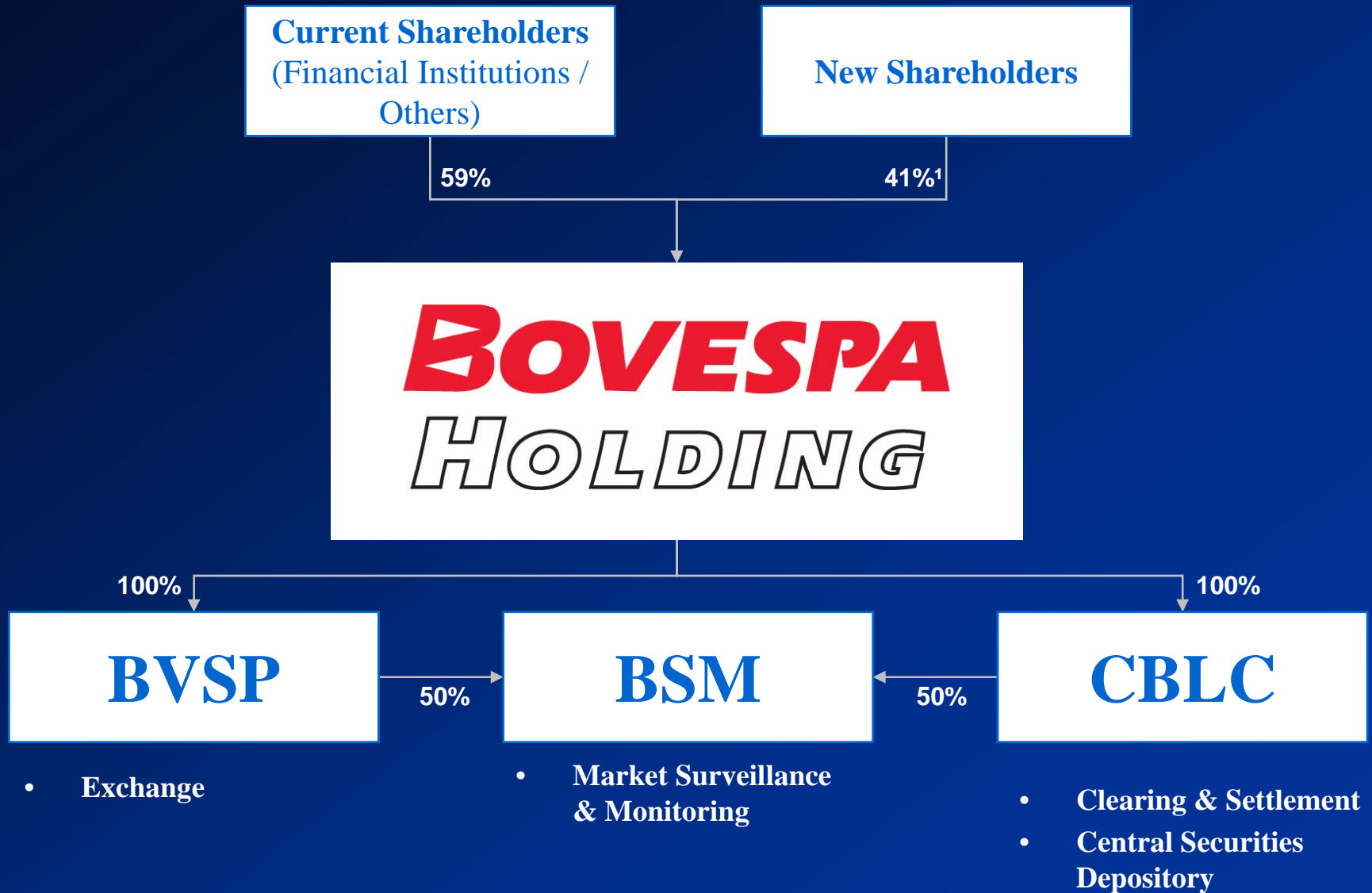
- *Demutualization: August 2007*
- *IPO: October 2007*

Demutualization in Brazil

Steps taken

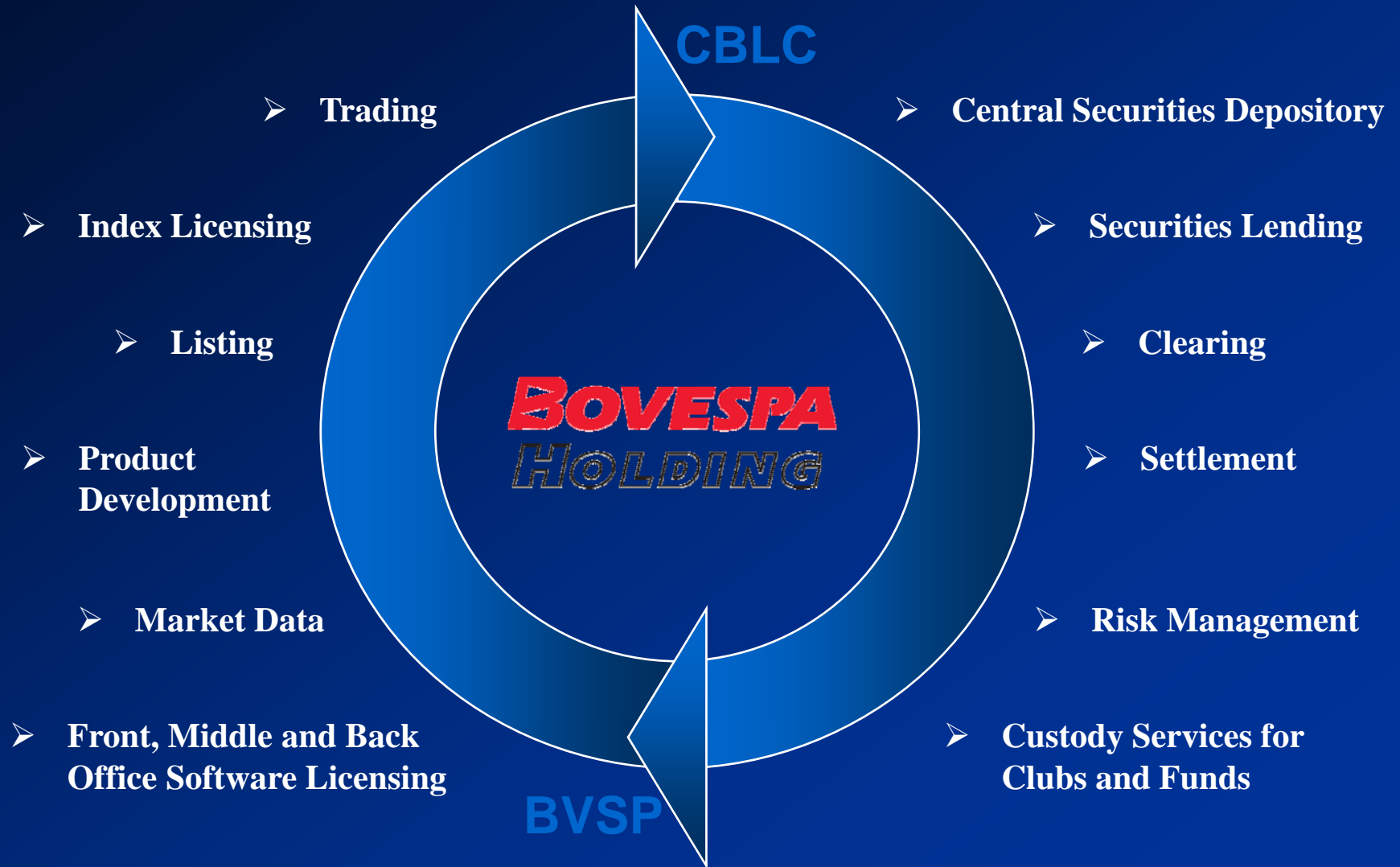
- ✓ Approval by the regulatory bodies
 - Securities and Exchange Commission and the Central Bank
- ✓ Corporate Restructuring
 - Approval by the members for the creation of a for-profit organization
 - Bylaws and contracts review
- ✓ Trading Access
 - Rules definition, licenses etc
- ✓ Self-Regulation
 - 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

Corporate Structure



Vertically Integrated Model

- Bovespa offers a complete array of services for trading, settlement and custody of securities



Experienced Management Team and High Standards of Corporate Governance

- All common shares with equal voting rights
- Full tag-along rights
- Majority of board of directors composed of independent members. Very strict definition of independence including:
 - No commercial relationship with Bovespa
 - Cannot be a controlling shareholder of any company listed on the Bovespa
 - If a board member of any listed company, must be an independent director of that entity
- All board members are non-executives

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