

Rating Action: Moody's rates BM&FBOVESPA A1

Global Credit Research - 27 May 2010

New York, May 27, 2010 -- Moody's Investors Service assigned a local currency issuer ratings of A1 on the global scale and Aaa.br on the Brazilian national scale to BM&FBOVESPA S.A. (BM&FBOVESPA), the Brazilian futures and stock exchange. The outlook on the ratings is stable.

The rating reflects BM&FBOVESPA's dominant market share as Brazil's only major domestic cash equities and futures exchange and clearinghouse. The current lack of serious competitive threats affords BM&FB significant pricing power, which, together with its business model's high operating leverage, translates into very strong profit margins and cash flow generation. This, combined with the exchange's limited financial leverage, contributes to the firm's key credit strength of good financial flexibility, which can be preserved even with some long-term debt in the capital structure.

In 2009, BM&FBOVESPA generated R\$975 million in EBITDA with a 65% EBITDA margin. Looking ahead, two additional factors support the sustainability of BM&FBOVESPA's operating cash flow: first, a reasonable degree of diversification of trading revenue and, second, the likelihood that, in the long-term, Brazil's financial and capital markets will continue to follow their current growth trajectory. Partnerships with global exchanges, such as the one with CME Group in 2008, are reinforcing franchise strength as are upcoming strategic joint-ventures; these should enhance BM&FBOVESPA's earnings diversification and business position in the global market place. These factors also reduce the exchange's vulnerability to cyclical declines in trading levels in any or all traded assets.

BM&FBOVESPA's key credit challenges include: 1) the credit, market, operational, and liquidity risks of each of the four individual clearinghouses (equities, derivatives, government bonds, and foreign exchange), 2) its heavy reliance on technology, which requires persistently high levels of investment to avoid obsolescence, and 3) competitive threats that could erode the company's market share and pricing power.

With respect to the clearinghouses, Moody's believes that BM&FBOVESPA's risk management approach is both sophisticated and conservative. BM&FBOVESPA's primary (though not only) method of minimizing the potential credit and market risks stemming from its role as a central counterparty is to impose very conservative initial margin requirements and to actively update them as market conditions warrant. As a recent example, the company's risk management and operational processes proved highly effective throughout the market turmoil of 2008 and Moody's expects them to continue to do so going forward.

Moody's notes that like all modern exchanges, BM&FBOVESPA relies heavily on technology. While this contributes positively to its operating leverage, it also means that the company must continually invest in technology to ensure that its systems are both fast and reliable. This is especially critical as end-users become more sensitive to network latency, and transaction volumes grow, placing greater demands on the platform's throughput capacity. In preparation, BM&FBOVESPA is engaged in a large-scale upgrade of both its physical infrastructure and matching engine technology. This critical project poses potential execution risks for BM&FBOVESPA. The company, however, has a track record of successfully integrating operations, including when it merged its equities and derivatives exchanges.

Finally, although BM&FBOVESPA is highly integrated into Brazil's payments and trading infrastructure -- a reflection of its dominant market share, it is potentially vulnerable to competition. Competition could come from local upstarts or foreign entrants enticed by the profitability and growth prospects of BM&FBOVESPA's business model. In an extreme case, such competition could reduce the company's pricing power and erode its market share. However, any material competitive threat appears unlikely in the near-term and is therefore not weighing down on the A1 rating, particularly given BM&FBOVESPA's considerable financial flexibility. The strong regulatory framework -- both on the part of the financial system and local capital markets authorities --- is a positive driver for the A1 rating.

The principal methodology used in rating this issuer was the "Global Securities Industry Methodology", (published December 2006) which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Incorporated in Brazil and based in São Paulo, BM&FBOVESPA S.A. had total consolidated assets of R\$22 billion (US\$ 12.2 billion) as of March 2010.

The following ratings were assigned to BM&FBOVESPA:

Global local currency issuer rating of A1, stable outlook

Brazilian National Scale Rating of Aaa.br, stable outlook

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