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Q3 2017 Earnings Call

Company Participants

- Daniel Sonder, Chief Financial, Corporate & Investor Relations Officer
- Rogério de Araújo Santana, Investor Relations Managing Director

Other Participants

- Carlos G Macedo, Analyst
- Domingos Falavina, Analyst
- Mark Benjamin Jason, Analyst
- Tito LaBarta, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call about the earnings results of B3 for the third quarter of 2017. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions to participate will be given at that time. As a reminder, this conference is being recorded and broadcasted live via webcast. The replay will be available after the event is concluded.

I would now like to turn the conference over to Mr. Daniel Sonder, Chief Financial Officer of B3.

Daniel Sonder {BIO 18250247 <GO>}

Good morning. I'd like to welcome you all to the third quarter 2017 earnings call of B3. I'm here with Rogério Santana, Head of Investor Relations, as well as the Finance and Investor Relations team. And I'd like to thank them for preparing the documents that you have in front of view. Additionally, on behalf of the entire executive team, I'd like to thank you for your continued trust and support.

Let me take a moment to highlight that as it was the case for the previous quarter, third quarter 2017 audited numbers already contemplate the combined business results for B3 post merger. However, the year-over-year analysis is based on a non-audited combined income statement for the third quarter of 2016, which includes the BM&FBOVESPA and CETIP's figures for that quarter.

I'll start the presentation on slide 3, where we have the highlights for the third quarter. We show the operational information for the quarter and we will get into more details throughout the presentation. We had a very strong performance this quarter with solid

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volume growth in both BM&F and BOVESPA segments which were positively impacted by the combination of interest rate cuts by the Central Bank and better macro outlook.

We also had a strong performance in the CETIP financing segment, where we continue to witness a recovery in the vehicle financing market. With the numbers of vehicles financed growing at a double digit pace for the first time since fourth quarter of 2010.

I would also like to take this opportunity to provide you an update on the strategic initiatives. In August we concluded the second phase of the integration of the new clearinghouse, which consisted of migrating the equity and corporate fixed income market into a new infrastructure integrated with the derivatives and commodities markets. The new clearinghouse uses our proprietary core risk system, which optimizes collateral management and enables us to release BRL 41 billion in capital considering Phases 1 and Phases 2 to our clients without adding risk to the market.

This project was the outcome of countless hours of work of our team, our client teams and the regulators. And we are very proud to be delivering an infrastructure to the Brazilian capital market that is at the new frontier of post-trading technology for collateral and risk management. We also made strides in the merger integration process. Redesigning our products in client area, aiming to enhance product development and customer experience.

In slide 4, we see that our revenues grew by 20% year-over-year. As I mentioned in the previous slide we witnessed a very strong operational performance in the third quarter 2017 with four out of our five main revenue groups growing at a double-digit pace. Revenues in the third quarter included a BRL 57.8 million non-recurring provision reversal related to a legal dispute around social security contribution, in which a final decision was obtained in favor of B3.

Excluding the effect of this one-off provision reversal that positively impacted our other revenues line, total revenues would have grown by 14%. Adjusted expenses reached BRL 252 million, 2.2% higher than in the third quarter of 2016, driven by higher software maintenance, expenses and expenses directly linked to revenues.

EBITDA adjusted for non-recurring items was BRL 667.8 million, almost 11% higher than in the previous year. Adjusted EBITDA margin was approximately 67%, 190 basis points lower than in the third quarter of 2016. The main impact was the increase in recurring provisions for legal disputes in which, part of the amounts and the discussion is updated according to the price of the BVMF3 shares.

Recurring net income reached BRL 445.3 million, a 27% decrease mainly explained by a lower financial results, as we currently hold a smaller cash balance and higher debt level versus last year as a result of the transaction with CETIP.

As for distribution to our shareholders, last Friday our board approved interest on capital amounting to BRL 168 million which represents 50% of the IFRS net income. As we have stated in previous earnings calls, we intend to pay out 50% of our IFRS net income in the

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first three quarters of the year and decide if we will increase this ratio to an additional distribution subject to board approval in the fourth quarter of the year.

Now Rogério will give more details about our operational performance.

Rogério de Araújo Santana

Thank you, Daniel and hello, everyone. I would like to ask you to move forward to slide 5 where you'll see the revenue performance and break down for the third quarter 2017.

This is a slide that we'd like to include in our earnings presentation because it shows very clearly how diversified and well-balanced our business is. In the bar chart, on the left side, we see that revenues from all the five segments grew year-over-year leading to a 20% growth in total revenues, as Daniel mentioned previously.

In the pie chart, on the right side, we see the breakdown of revenues for the quarter which shows once again, as I mentioned, the highly diversified and well-balanced business model we have.

Moving to slide 6, you will find the details on the performance of the financial and commodities derivatives market where we had a 20% year-over-year revenue growth. As you can see, we experienced significant volumes growth in all groups of contract. And as Daniel mentioned earlier, this increase was driven by interest rate easing cycle with volumes of interest rates in Brazilian real's contracts, which represent roughly 65% of total ADV in this segment grown by 6% to 9%.

On the other hand, the average RPC fell 20% reflecting higher share of options, high frequency traders and day trade being the overall volumes, since we charge lower than the average fees on these contracts and transactions. Also, we have previously mentioned, we had adopted a cash flow hedge accounting for part of the U.S. dollar denominated revenues in this segment, which come mainly from the fees collected in the trading and post-trading of FX and interest rates in U.S. dollar contract. The hedge was set by designating the one-year loan, U.S. dollar denominated loan we entered into in December 2016, took over part of this U.S. dollar denominated revenues generated by this two group of contracts that I just mentioned. This hedge offset part of the negative impact the Brazilian real appreciation against the U.S. dollar would have had on the revenue in this segment.

Moving to slide 7, we have the performance of the equities market in the BOVESPA segment where we also saw solid revenue growth driven by a 21% increase of the ADTV in this segment which went from BRL 6.9 billion per day in the third quarter 2016 to BRL 8.4 billion in the third quarter 2017. This performance reflects the continuous recover of the Brazilian equities capital markets, which is evidenced by the 19% increase in the market capitalization of Brazilian companies as shown in the bottom right chart in this slide.

Next, in slide 8, we present the performance of the CETIP securities segment. The financial volume of fixed income instrument registered was up 12.2% driven mainly by a

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68.6% increase in the registration of bank deposit certificates or as we call in Brazil CDBs.

This increase, in turn, propelled the volume of fixed income stock on which maintenance fee apply, which reached BRL 4.2 trillion in the third quarter 2017, an increase of roughly 15% in comparison to the same period of 2016.

On the other hand, in the case of OTC derivates and structured notes, both the volume registered and the stock maintenance in our CSD and in trade repository decreased by 10.5% and the 11% respectively mainly due to lower FX volatility, that impacted the volumes registered of OTC derivative.

Revenue generated by monthly utilization fees paid by our clients grew 8.5% to BRL 61 million in the third quarter 2017, mainly reflects the increase in number of clients and price readjustment by inflation for the services provided by B3 to our clients.

In the slide 9, we show revenues for the CETIP financing segment which grew 17% over the third quarter 2016 propelled by a 12.2% growth in the number of vehicles financed. This market shows continued signs of recovery and it is the first time since the fourth quarter 2010 as Daniel mentioned before that this segment delivers a double-digit growth rate of number of vehicles financed.

On the other hand, the company's market share in the Contract Systems services contracted by 2.1%, which is explained by the fact that that B3 did not offered the Contract Systems service in the state of Minas Gerais during the month of September as it is still awaiting its accreditation in the new model proposed by the local state DMV in order to resume business.

Now, I will hand over the presentation back to Daniel who will detail our expenses and other financial highlights.

Daniel Sonder {BIO 18250247 <GO>}

Thank you, Rogério. In the next slide, slide 10, we show the behavior of the company's adjusted expenses. Adjusted expenses reached BRL 252 million, a 2% increase year over year. Personnel expenses were flat despite the 3% annual salary adjustments reflecting some synergy gains from the combination with CETIP and an increase in capitalized personnel expenses related to ongoing technology projects.

Just as a reminder, the synergies related to the combination with CETIP will be gradually captured throughout a three-year period and should positively impact the coming quarters. We expect that in three years, we will reach recurring annual savings of BRL 100 million.

In slide 11, we demonstrate our financial robustness with a solid cash position, which is an important part of the business of being a credible counterparty in the financial markets. Total cash amounted to BRL 6.9 billion at the end of the quarter composed by B3's own

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cash and third-party cash, mainly related to collateral pledged in cash by clients in our clearing house.

In the light blue bars, you will find B3's own cash, composed of restricted and unrestricted cash amounting to BRL 4.5 billion in third quarter of 2017. B3's own cash includes the necessary cash to run the day-by-day activities of the company that totals between BRL 2.5 billion and BRL 3 billion. This amount includes approximately BRL 1 billion in clearinghouses' required safeguards. The remaining balance adds to the liquidity that supports our activity as a central counterparty and general corporate needs.

The cash balance at the end of the third quarter 2017 already reflects the payment of BRL 500 million in senior unsecured debentures issued by CETIP that matured in September. The bars on the left side of the chart show the third-party cash which amounted to BRL 2.4 billion, mainly composed by market participants cash collateral of BRL 1.9 billion. It's important to highlight that the company earns interest income on most of this cash balance.

In slide 12, you see the company's debt profile and amortization schedule. Currently, our financial leverage is temporarily higher with a gross debt to EBITDA ratio of 2.2 times in the third quarter of 2017. Our target is to reduce this ratio to one time by the end of 2019, following the debt amortization schedule you see in the bar graph on the left side.

During this quarter, we had paid down BRL 500 million in senior unsecured debentures issued by CETIP that matured in September. We also rolled over $100 million loan from our CETIP Lux subsidiary extending its maturity to August 2020 from August 2017 and August 2018 previously.

Moving on to slide 13, in the third quarter of 2017, we have a BRL 19 million financial gains. The decrease in financial income is slightly lower cash position due to the payment of the cash portion of the combination with CETIP, which was made in late April, combined with lower level of Brazilian interest rates.

Financial expense decreased 4% year-over-year, despite the company's higher leverage in third quarter 2017, we saw a decrease in this expense, as a result of the FX gained on CETIP Lux subsidiary loans and lower Brazilian interest rates. In the next page, slide 14, we discuss our guidance for 2017 figures. We maintain our previously announced adjusted OpEx guidance between BRL 1.50 billion and BRL 1.100 billion. But we are reviewing our depreciation and amortization as well as our CapEx guidances.

For depreciation and amortization expense, we are lowering our guidance to BRL 710 million to BRL 750 from a previous number of BRL 790 million to BRL 840 million. This comes as a result of the postponement of the conclusion of some projects, as well as changes in some of the company's projections and assumptions.

We are lowering the range for our 2017 capital expenditures to BRL 230 million to BRL 250 million from a previous number of BRL 250 million to BRL 280 million. This comes as a result of a review in our pipeline for the year of projects. Finally, we also reduced the

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guidance for expected CapEx related to the combination in the years 2017 and 2018, which is shown in slide 17 of the appendix, from BRL 45 million to BRL 65 million range previously announced to a new number of BRL 20 million to BRL 30 million.

Before I conclude this call, I would like to invite everyone to join us in our analyst event called B3 Day which this year will take place on December 13 at our headquarters in São Paulo in the morning of that day. We are working hard to prepare a nice event for everyone and I would like to invite you and hopefully see you there.

I would now like to conclude the presentation and open our Q&A session.

Q&A

Operator

Ladies and gentlemen we will now begin the question-and answer-session from investors and analyst. Our first question comes from Domingos Falavina, JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Hi, good morning Sonder and Rogério, thank you for taking the question. Actually I have two questions. The first one is on the – like your expectations more for the medium term like we noticed very strong top-line and of course we're not complaining. EBITDA margin just compressed a little bit, if you look Q-on-Q (19:16). But if we think of EBITDA margin, should we see a stabilization on EBITDA margin on 67%, 68%? Should we see margins moving up as a result of (19:34)? How should we think about the margin? And then I have a second question.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you Domingos for your question. So our business model allows for us to grow our revenues without increasing our expenses. In fact, I think that the investments that we did in the last few years have proven to deliver on that. If you look just as a data point, month of September this year versus month of September last year, we saw in equities a, 50%, 5-0, 50% increase in average daily traded volume for the month. And we were pleased to be able to process this additional volume on the platforms that we have today with the team that we have today with the recurring expenses that we have today.

This is pretty much the same for all of our business units, perhaps except for the financing unit of CETIP where there are some expenses that grow with volumes. So I think, we are pretty well positioned to be able to capture some margin increase going forward if the conditions in the marketplace allow for growth in our top-line.

We have a difficult time forecasting what revenues are going to be like because there are so many drivers that affect that and both macro as well as micro driver investor sentiment and so forth. So you know, I would – with this giving you a longer term view of where margins will end up, but you know, it is the case that if we witness growth in the top line this really sets in a higher EBITDA margin.

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Q - Domingos Falavina {BIO 16313407 <GO>}

Super clear. The second question is more on the cost side. It surprised us a little bit the cost and mainly because of a little bit later than anticipated conclusion on the clearinghouse integration, which congrats, by the way. But it turns out that one quarter of OpEx (22:07) – one quarter of CapEx did not translate into OpEx. Hence, your guidance for the year could be a bit slow at least if we think one quarter about 25% of the year, you should allow some room for on the very low end of the guidance, even potentially be, does that make sense or not? And if not, what exactly should compensate these OpEx that explain the (22:32) quarter?

A - Daniel Sonder {BIO 18250247 <GO>}

Yeah, so we reviewed as we do every quarter our guidances and we changed those which we felt we were about to miss. And we did not change those that we feel comfortable are in the range of what we expect to deliver by year's end. The math shows that in our operating expenses, we should have a fourth quarter that is higher than what we have now for the year. This had to do with a number of things that typically happen at the end of the year in our company.

We usually fund our self-regulatory entity for the following year at the fourth quarter. This has been the case for few years now, but also and perhaps more relevant in that is the fact that we apply our annual salary adjustments to our employees in August. So it captures part of the third quarter, but would apply full into the fourth quarter and then the final impact on the fourth quarter would be that because of the end of our largest project which was the clearinghouse integration project, in August we are, as of September capitalizing less of our personal expenses.

This is something that I think we have tried to discuss with investors and analysts for quite some time that we do have a large amount of people that are dedicated to getting these platforms and infrastructures, and we follow the accounting rules in that we capitalize their wages and benefits towards the project in our CapEx. As these projects wind down, these expenses would return to our regular sort of payroll expenses in the P&L. So this is something that we will observe in the fourth quarter.

Q - Domingos Falavina {BIO 16313407 <GO>}

And finally, just a quick question just so I make sure I understand, what (25:13) provision for the salary adjustment which has been unusually low this year. So it's actually been a positive surprise as far as booking the expenses in the 4Q. I guess, just a follow up on that, do you provision for that year or not and why the impact is factored to be so exponentialized in 4Q?

A - Rogério de Araújo Santana

Hi, Domingos. This is Rogério. You'll remember that the guidance for OpEx that is in place today was released by us in May, just after the conclusion of the merger. So when we budget our expenses we were using inflation expectations at that time. That was slightly higher than the actual inflation that we should see for the year. But you are not using expectations from December 2016 that would be much higher. So it was higher but not that much. I don't know if I addressed your question.

Q - Domingos Falavina {BIO 16313407 <GO>}

No, super clear. But still the net impact should be positive, because if you're expecting the CapEx to flow through OpEx in third Q and fourth Q, and now you only have it flowing through in 4Q and we provision for the following increase, you should have some kind of positive impact on the (26:36) guidance, right?

A - Daniel Sonder {BIO 18250247 <GO>}

Yes, but remember that we have a range for the guidance.

Q - Domingos Falavina {BIO 16313407 <GO>}

Well, at least in the ballpark of the range then I guess.

A - Daniel Sonder {BIO 18250247 <GO>}

In the previous, we don't say exactly in which point of the range we would be. But we have this gap or this room to manage, not manage but to have the final numbers. So maybe it could help us to be closer to the bottom of the range instead of being in the mid or in the higher part of it.

Q - Domingos Falavina {BIO 16313407 <GO>}

No, very clear. Thank you very much and congrats on the quarter.

Operator

The next question comes from Mark Jason, Invesco.

Q - Mark Benjamin Jason {BIO 4289233 <GO>}

Yeah good. Good morning, gentlemen. So I just have my question's relating to provision charges that we saw as the legal dispute changed from to probable from possible. And I'm wondering you know, what legal dispute specifically we're talking about, and are you at this point a 100% provisioned.

A - Rogério de Araújo Santana

Hi, Mark. This is Rogério. Let me see if I understood correctly. You are asking about some change in the classification of provisions that we described in the note to our financial statement or are you asking about the no-recurring reversal of provision that affected our top-line? Can you confirm to me to?

Q - Mark Benjamin Jason {BIO 4289233 <GO>}

The former, the first one. So on page 3 of your press release, you discussed legal disputes that had changed from a loss of possible – from possible to probable.

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A - Rogério de Araújo Santana

Just one second. So it happened in 2016, this change in the classification not in the third quarter 2017. When we described this change was to explain that the comparison basis was impacting the numbers.

Q - Mark Benjamin Jason {BIO 4289233 <GO>}

Okay.

A - Rogério de Araújo Santana

At that time, there was two – there was one large legal discussion with a former brokerage house in Brazil that bankrupt few years ago, and considering some decisions in the intermediary court, our lawyers advised us to change our view about the case. So at that time, which is the third quarter 2016, we made roughly BRL 180 million in provisions for this case. And since then, this case has impacted our level of recovering provisions because, a significant piece of these provisions are linked to BM&F B3 share price because what is under discussion is the conversion of ownership shares of a former broker to trading shares that you have available today. And the second impact in the third quarter 2016 was that starting from that quarter, we made provisions for fixed fees on all the case treated as remote or a possible chance of losing. So it was a change in the accounting treatment that we had made at that time – starting from that time and it was a one-off.

Q - Mark Benjamin Jason {BIO 4289233 <GO>}

Okay. That's very clear. Thank you very much.

Operator

The next question comes from Tito LaBarta, Deutsche Bank.

Q - Tito LaBarta {BIO 20837559 <GO>}

Hi. Good morning, Daniel and Rogério. Thanks for the call. A couple of questions also. First, just following up actually on Mark's question on the provisions. Cause we have seen that increase this quarter, the legal provisions have been going up and you mentioned it is tied to the stock price a bit. But just want to get a sense going forward, how to think about that line because it makes a big difference between your adjusted expenses and the actual expenses at the end of the day.

So like how much left is there to provision there or how should we think about these provisions maybe related to your stock price, just give it on a forecast outline a little bit better? And then my second question in terms of your cash position, you mentioned around BRL 4.5 billion in cash, we need around BRL 2 billion to BRL 3 billion to run the business. Maybe thinking little bit longer term, what's the cash position that you will be comfortable with, excluding what you need to run the business? How should we think about that? Thank you.

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A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Thank you, Peter. This is Daniel. So, let me pick up on where Rogério left off in the previous question and give you a little bit more details. So our provision line basically affected by three things. One is obviously new cases that maybe get a new classification. So cases that we are in discussion and that there is a development in the legal dispute which would make us less confident that we would win, and that's obviously very hard to – too tough to predict.

Then there is a second group which is – those cases which are as Rogério mentioned linked in the value to the stock price of our company. These are a handful of brokers which were members of the exchanges and CETIP. When these companies were neutralized and they go to court to fight for the right to have their ownership in the neutralize entity recognize as ownership in the deneutralized entity. They had lost their rights to be members for a number of reasons, some operational, some financial. And when the companies then will be neutralized and listed, they could, we want to be regarded as full members. Because these discussions have to do with an economic interest in the company, their value is linked to our share price. And in the few cases where we consider that the other side has a good case, we have made provisions and the big sort of number came in the third quarter of last year as we just mentioned. And from that point onwards, we have to adjust the size of the claim, the size of the potential liability in accordance with our stock price. So that's the second source of changes in our provision line.

The third source is that we provision every quarter the legal fees related to cases where we think we're going to win. So if a case comes in and we hired legal advisors and we expect that we will win, that means we won't pay for the loss in the case, but we would pay for the fees. And this quarter, for instance, we had as we announced to the market, we had the third part of our goodwill dispute of the BOVESPA merger, which are related to the years 2012 and 2013, and we classify this potential liability as a remote probability of losing. And as a flipside of that, we booked our legal fees that would come in at some point in the far future I guess, but we booked that as a provision expense for the quarter. So I'm sorry I can't be very helpful on helping you project it out for following quarters, but they do you have sort of atypical nature, these type of expansions. And that's why we try to adjust them in our numbers, so that we can make proper business-to-business comparisons in our statement.

Q - Tito LaBarta {BIO 20837559 <GO>}

Very helpful, Daniel, actually but maybe just a quick follow up on that. Just to clarify on the goodwill, the provisions are related to the legal fees. You haven't booked any provisions for potentially losing on the goodwill case, that's correct?

A - Daniel Sonder {BIO 18250247 <GO>}

Correct, yes.

Q - Tito LaBarta {BIO 20837559 <GO>}

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Great. And is there any sensitivity that we could use like if your stock price goes up 10%, your provisions would go up this much. Is there any guidance you can give on that?

A - Daniel Sonder {BIO 18250247 <GO>}

No. No, not really.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. No problem. And then the second question was on the cash position.

A - Daniel Sonder {BIO 18250247 <GO>}

Yes, exactly. So, on the cash position. So this is something that we frequently discuss and always bring it to our board. We have a view that having again around BRL 3 billion is what is necessary to run the business. But we do like to have flexibility. We have some maturities coming up in the next few years, when they have a higher balance because of that. We also have an ambition to perhaps propose a higher payout at the end of the year. So I think what you will see in the next year or two is that we are going to have during the year sort of accumulate a little bit more cash. And then by the end of the year, if all goes well and again subject to board discussions and approval, we should announce an additional distribution. So, we would be a little bit more conservative on the first three quarters and then announce a bigger pay out at the end of the year, which will probably actually be delivered to shareholders in the beginning of the following year. So that's kind of how we view it.

But this is always a recurring discussion. What I will tell you is we will not accumulate too much cash beyond what we can keep, it's reasonable and gives us a lot of flexibility, but there is no cash as a accumulation for the purposes of acquisitions or anything of that nature. It's basically to serve our debt, to amortize our debt, to give us flexibility and also to make those payouts to shareholders in the form of IOC.

Q - Tito LaBarta {BIO 20837559 <GO>}

Great. And very helpful. Thanks, Daniel.

A - Rogério de Araújo Santana

Tito, I sort of had one very brief follow-up on your first question. In the earnings release, we detailed how much of provision was related to the share price of B3. So in the third quarter it was BRL 25.9 million in additional provisions related to the share price of the company. So if you compare this amount versus the share price variation between the end of June and the end of September, I think, you're going to get a good reference in terms of how our numbers or our earnings could be impacted by these disputes going forward.

Q - Tito LaBarta {BIO 20837559 <GO>}

Excellent, great. Thanks, Rogério.

A - Rogério de Araújo Santana

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You're welcome.

Operator

The next question comes from Carlos Macedo, Goldman Sachs.

Q - Carlos G Macedo {BIO 15158925 <GO>}

Hi. Good afternoon, Daniel, Rogério. A couple of questions. One, just going right back to the beginning with Domingos. In the past when we talked about BOVESPA on a standalone basis, fixed costs, I think the discussion that we had is around 80% of total cost. Can you give us an update with CETIP not only where it is now but where you guys hope it can be, maybe over the next 12 months, try to get an understanding of what kind of operational leverage you can have over the long-term?

Second, given that rates are much lower now in Brazil than they were last year, and that that opens a whole slew of possibilities for the capital market, generally speaking. Could you remind us of the product pipeline that you guys have? What's under development and what can we expect to see over the next say 12 months? And what impact do you think that could have? Thanks.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. I'll start with your second question regarding capital markets and product development. I think, that the if I were to sort of take some of the highlights from each one of the segments, right, if you look at BM&F listed derivatives, I think that we continue to work on adding market makers, we continue to work on the inflation futures family and we'll have to see how the market develops. We have had a very unique year in the interest rate world in Brazil, as rates came down very, very sharply over the last few months. So obviously, that impacted our volumes and was great for the business, but that's something that is difficult to expect that will happen again in the same magnitude.

And if you look at the number of contracts traded in interest rates, we saw all-time high, after all time high. And again, I'm just pointing that out because it was an unusual year in that regard. But we continue to be optimistic on all the derivatives businesses. I think there is number of structural reasons for them to grow, so that that's going to continue to be a profitable and interesting area for us.

With respect to equities, our efforts continue to be on again bringing on more market makers. Also, working on the rules for corporate governance, Novo Mercado this was a big effort that we pushed during this year. I think that's maintaining, i.e. well regarded environment for listings in Brazil is a key aspect of our strategy to continue to be a place where companies choose to live and where investors feel that they can comfortably allocate their investment in companies that are listed here.

And also, we think that ETFs could expand as interest rates continued to go down and more people move their money from government bonds or government bond funds into

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equity or equity-like instruments. I think ETFs are definitely a place where we should expect some growth.

In the former CETIP securities unit, I think there is two points that I wanted to highlight. One is, as credit expansion happens in Brazil and hopefully, this will pick up speed a little bit from next year onwards, I think there would be more registration of bank funding instruments in our platforms and that is a good thing. But perhaps more importantly, could be the growth in corporate bonds, right.

The combination of the recovering economy, companies need to refinance and the absence of BNDES and other government banks in the market could lead many companies and again, I can't promise any of this, but it's just a trend. It seems logical to us that it would lead many companies to issue local debentures right. That would be the supply side. The demand side would come from investors, institutional investors, money managers as well as individuals wanting to shift their money away from government bonds where the yields are going down towards more slightly more risky assets where they can pick up some yield. So, we do think that the volume of corporate debentures in Brazil could increase which obviously is something that we're working on and hope to be able to witness in the next few years.

And finally in the financing unit of CETIP, in the recovery of the car segment of the – with more consumer confidence, with lower rates with extending maturities, banks going back to the business of lending through fixed assets and people buying more cars as well as the whole real estate platform which again is small volumes today, but it's a segment for us to (46:24).

So those are the main initiatives that we continue to work on. And we're also working on market data. I think that's a stage where with the combined data capabilities of B3 adding (46:43) consumer behavior and car lending, all the way through complex derivative pricing. I think we can broaden our offering in market data and we're very organized internally to do so. Maybe Rogério will discuss the EBITDA margin question.

A - Rogério de Araújo Santana

Hello, Macedo this is Rogério. Well, as you mentioned, in the case of the former BM&FBOVESPA business, that's simply a business that is pretty much fixed cost, so personnel and IT. And the numbers that we're seeing in terms of volumes, for both BOVESPA and BM&F segment, show that this operational leverage really exists because expenses definitely is not growing at the same pace volumes and revenues is growing.

In the case of CETIP business, the former CETIP, a small piece of their expense is all linked to the top line. It comes from the financing unit and from partners and service providers that benefit from revenues growth. In the third quarter 2017, for example, and we described this number in our earnings release, these revenues related expense that is under the third-party services expense line amounted to BRL 16.7 million in expense. So when you compare that with the total OpEx it is not as big, but this is the part of the expense that is directly connected to revenues.

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And on top of that, as we already discussed during this call, there are some provisions that is linked to our share price. So theoretically, the share price should in some sense reflect, what is happening in the company. Of course, we know there are many other macro effect that could impact the debt, but it should be aligned with how the business is performing. And finally, there are some personnel expense specifically related to long-term stock-based compensation that also varies according to the share price.

I'm talking about the payroll tax that we need to make provisions and pay on these long-term compensations. So all making a long story short, most of our costs are fixed and not linked to the share price or to revenues. But there is a small piece that isn't related to that. And we do believe that we could see operational average leverage going forward if one helps.

Q - Carlos G Macedo {BIO 15158925 <GO>}

Okay. Thanks, Rogério. Just one follow up. I think at the beginning, Daniel, you mentioned that corporate bonds should be a good opportunity for your registration custody business. What about fixed income trading which has always been a promise and basically is nothing at this point? Do you think that with low rates and greater issuance, could you guys develop a market in fixed income trading in Brazil?

A - Daniel Sonder {BIO 18250247 <GO>}

Yes. I think that's one possibility. I am careful in putting too much hope on this because I started working in the financial markets 20 years ago, people have been talking about a liquid market for trading debentures. So maybe now the conditions will be here. I think that first we need to see volumes of issuances going up and then we need to see more people that are professionally focused on doing this. I don't think this is going to be a retail market only. It would definitely need to have institutional funds – credit focused funds looking at that to be active traders. We do have the systems and the platforms to do that. We are I think constantly monitoring and working with players. And it's definitely something where we should expect to see movement and we will be right there to capture it. But even if there is no secondary market, we'll be there sort of in the CSD function carrying those bonds.

And if there is trading then even more so because I think that trading will ultimately lead new players to the market in terms of funds and so forth. There is a little bit of a chicken and the egg problem, some funds stay away from this market, because there is no liquidity. So, if you get liquidity going, you definitely have more people joining in the conversation and being participants indeed. So, short answer is, yes, I think it will happen. I'm not sure if all the conditions are already here in the near-term and we're definitely very, very well positioned to capture that opportunity when it comes.

Q - Carlos G Macedo {BIO 15158925 <GO>}

Great. Thank you.

Operator

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This concludes today's question-and-answer session. I would like to invite Mr. Daniel Sonder to proceed with his closing statements.

A - Daniel Sonder {BIO 18250247 <GO>}

Well, everyone, thank you once again for joining the call. I hope we were able to address all your questions. If there is anything left that we can talk about please do reach out to our team. We have a lot of knowledge here about what goes on in the quarter and so forth. So please feel free to give us a call and talk to the IR team. Again, thank you so much and it's been a pleasure speaking to you.

Operator

That does conclude the B3 audio conference for today. Thank you very much for your participation. Have a good afternoon and thank you for using Chorus Call Brazil.

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