

Q4 2017 Earnings Call

Company Participants

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

Other Participants

- Alexandre Spada, Analyst
- Carlos G. Macedo, 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 Fourth Quarter of 2017. At this time, all participants are in a listen-only mode. Later, we'll 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>}

Hello. Good morning, everybody. I would like to welcome you all to B3's fourth quarter 2017 earnings conference call. I am here with Rogério Santana, Head of our Investor Relations team, as well as the Finance and Investor Relations colleagues. And I'd like to take this opportunity to thank them for preparing the documents you have in front of you and for the excellent work they've conducted along the year in informing the investor community. Additionally, on behalf of the entire executive team, I'd like to thank you for your continued trust and support of our company.

Let me take a moment to highlight that as was the case for the previous quarters fourth quarter 2017 audited numbers already contemplate combined results for B3. However, the year-over-year analysis is based on a non-audited combined income statement for the fourth quarter of 2016, which includes BM&F, Bovespa and Cetip's figures for that quarter.

I want to start the presentation in slide 3, where we highlight some of the important achievements and figures for 2017 full year. Then, we will move into the year-over-year fourth quarter analysis. During the year 2017, we saw a significant drop in interest rates in Brazil, which reached 7% at the end of the year. We believe this should have a transformational impact on the cost of capital in Brazil on the development of the local equity and debt markets, and on investors' portfolio allocation.

We also are seeing initial signs of economic recovery. GDP grew 1% in 2017 and could accelerate to close to 3% in the 2018 and 2019 period, according to market expectations. These changes are reflected on the local capital market figures. The IBOVESPA Index rose 27% in the year. Equity and debt issuances combined reached BRL 160 billion, significantly higher than in previous years. Sales and financing of vehicles also reacted as total number of vehicles financed grew 9.7%.

This significant improvement in business environment resulted in great figures in the markets operated by B3. Examples are a record number of messages and trades that tested our trading and clearinghouse infrastructure capabilities, double-digit volume growth in equity and listed derivatives, and 10% growth in the number of retail investors in the equity market.

At the same time that we were prepared to support the market in this significant recovery, B3 also delivered on several strategic long-term fronts. After the merger approval, we moved forward in the integration project. Two highlights were: A, the reorganization of our clients and products function within B3 to increase client proximity and accelerate product development; and B, the merger expense synergies that were captured earlier than initially expected.

We also delivered on other key initiatives. We deployed the second phase of our new integrated clearinghouse, a project that adds innovation, capital efficiency, IT resilience and capacity to the market. Additionally, we renewed the PUMA Trading System infrastructure and enhanced the Novo Mercado corporate governance listing rules. Finally, we are on track in our financial deleveraging strategy, which should be combined with significant cash distributions to our shareholders, as was the case in 2017 when we distributed BRL 923 million in payouts or 72% over our IFRS net income.

I'd like now to ask you to move to slide 4 in the presentation where you'll see the revenue performance and break down for 2017. In the bar chart on your left side, we see that revenues from all five segments grew year-over-year, leading to a solid performance of 10.8% growth in total revenue. The main highlights were the Bovespa and Cetip Financing segments. On the other hand, we saw less growth in revenue from Cetip Securities segments, and Rogério will go into more details on that in the coming slides. In the pie chart on the right side, we see the breakdown of revenues for the year, which shows once again the highly-diversified and well-balanced business model we have.

In slide 5, we show the operational highlights for fourth quarter 2017 and full year 2017. As we will detail in further throughout the presentation, we had a very strong performance in both quarterly and yearly figures. The main highlights were the Bovespa and Cetip Financing segments, largely reflecting the recovery in the economy we saw in 2017. We also saw a solid performance in the BM&F segment, with significant growth at interest rates on many contracts.

Moving now to slide 6, we show 7.9% year-over-year net revenue growth in the fourth quarter of 2017. This was driven by solid performance in four of our five business segments, as you see on the left side of the slide. The only exception was the Cetip Securities segment that was flat year-over-year. Adjusted expenses grew 2.7% year-on-year showing once again our expense discipline, including saw the benefits of our synergy work.

Adjusted EBITDA that excludes nonrecurring items grew 12% year-over-year to reach BRL 673 million in fourth quarter 2017. On the other hand, the recurring net income was negatively impacted by the decrease in the financial results, which fell significantly due to the combination of increase in the company's debt and reduction of the cash balance, both as a consequence of the merger.

Finally, I want to call your attention to nonrecurring items that impacted our income statement in fourth quarter 2017. We recognized BRL 44 million in nonrecurring expenses related to the business combination with Cetip, in line with our budget. On the other hand, we had two positive impacts from reversals of provisions in this quarter: BRL 23 million related to the company's healthcare plan recognized under other revenues; and BRL 27 million related to legal contingencies recognized under other expenses.

Now, Rogério will give some more details about our operational performance.

Rogério de Araújo Santana

Thank you, Daniel. Hello, everyone. Moving to slide 7, you'll find details on the performance of the financial and commodity derivatives markets, where we had almost 10% year-over-year revenue increase. As you can see, we experienced significant volume growth in all groups of contracts. The main highlights in terms of ADV this quarter were FX rate and stock indices contracts that grew 20% and 74%, respectively. These two groups of contracts have benefit of growing volumes from local retail investors and high frequency investors, who have increased their trading activity in the many version of this two groups of contracts.

Additionally, ADV of interest rate the main group of contracts in this segment grew more than 6%, driven by the interest rate easing cycle that we witnessed in 2017. The average RPC fell 3.2%, mainly reflecting higher share of high frequency investors and day traders in the overall volumes, since we charge lower-than-average fees on this transactions. This effect was more significant in the FX and stock indices contracts since high frequency investors and day traders represent a larger part of the ADV of many contracts within these two groups.

In the slide 8, we have the performance of the equities market in the Bovespa segment, where we also saw solid revenue growth driven by a 16% ADTV increase, which went from BRL 8.7 billion to BRL 10.1 billion in the fourth quarter 2017, as you can see in the chart on the right upper side. This performance reflects the combined net recovery of the Brazilian equity market, which is evidenced by the 23% increase in the market capitalization of Brazilian-listed companies as shown in the bottom-right chart. The trading and post-trading margin went down 2.1% to 4.958 basis points due to higher participation of local institutional investors for which we charge lower-than-average fees.

Next, in slide 9 we present the performance of the Cetip Securities segment, where revenues were flat in a year-over-year comparison. The recent performance of this segment has been impacted mainly by three items. First, the decrease in volumes of OTC derivatives that negatively impacted the revenue lines registration and maintenance for CSD and Trade and Repository services. This was the first impact. Secondly, the impact of the Central Bank rule 4,527 that pushed the banks to substitute debentures issued by their leasing companies for CDs (00:10:43) as a funding instrument. This change negatively impacted the number of transactions raised in the system and the average fee charged for registration and maintenance services, since the fees charged on CDs (00:10:57) are lower than the ones that are applied on debentures.

Lastly, since the third quarter 2017, we have accrued the discounts we offer to our clients in connection with synergies from the business combination with Cetip. As we have said, we will give back 30% of the synergies captured to our clients. This accrual was translated in lower average fee for most of the business lines we have in this segment. We expect that these three items will keep impacting revenues in the segment in the coming quarters. Probably this impact should be more intense in the first half of 2018.

In the slide 10, we show revenues for the Cetip Financing segment, which grew 11.5% over the fourth quarter 2016, supported by 11.6% growth in the number of vehicles financed. This market has shown continued signs of recovery since the beginning of 2017 as you have followed through our numbers. On the other hand, the company's market share in the Contracts Systems services contracted to 65.2% in fourth quarter 2017 versus 75% in the same period of 2016. This decrease is explained by the fact that we have not offered the Contracts Systems services in the state of Minas Gerais since September 2017.

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, we show the company's adjusted expenses, which reached BRL 313 million in the quarter, a 2.7% increase year-over-year. Adjusted personnel expenses, which

exclude stock grant expenses, fell 4%. This reduction reflects synergy gains from the combination with Cetip that more than offset the impact of the 3% annual salary readjustment.

Just as a reminder, the total BRL 100 million in synergies related to the combination with Cetip should be reached in 2018 earlier than initially announced. On the other hand, we saw significant growth in third-party services expenses, which went up 89%. Most of this increase is connected to variable expenses directly linked to revenues, notably in the Cetip Financing segments where we saw double-digit revenue growth.

Moving to slide 12, we see the reconciliation of our expenses for the full year 2017. You'll see that we were on track with the budgets disclosed to the market. Starting at the bottom of the slide, we show adjusted expenses of BRL 1.067 billion, within the budget of BRL 1.050 billion to BRL 1.100 billion. This means a 4.2% growth versus 2016, slightly above average inflation in the period.

Depreciation and amortization reached BRL 742 million in 2017, mainly composed of BRL 570 million in amortization of intangibles. Additionally, this expense line was impacted by the deployment of the second phase of our integrated clearinghouse in August 2017 and by the renewal of the PUMA infrastructure for trading in November 2017. These systems now begin to be amortized.

Expenses related to the business combination with Cetip amounted to BRL 492 million, in line with our guidance. We still expect roughly BRL 60 million in nonrecurring expenses from the business combination in 2018, significantly lower than in 2017. Finally, we recognized provisions of BRL 199 million. It's worth reminding you that we must mark-to-market some of the provisions according that are linked to our own share price. Additionally, we recognized BRL 108 million in stock grant expenses, which again are also partially linked to the company's share price.

In slide 13, we show our financial robustness with a solid cash position. As we like to reinforce, having a strong balance sheet is an important part of the business of being a credible counterparty in the financial markets. Total cash amounted to BRL 7.5 billion at the end of the quarter, composed by B3's own cash and third-party cash, mainly related to collateral pledged in cash by clients.

In the light-blue bars, you will find B3's own cash composed of restricted and unrestricted cash, amounting to BRL 4.8 billion in fourth quarter 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, including BRL 1.1 billion in clearinghouses required safeguards. The remaining adds to the liquidity that supports our activity as a central counterparty and general corporate needs.

The cash balance that exceeds this minimum cash position at the end of the fourth quarter of 2017 has to do with interest on capital payments of more than BRL 500 million made in January 2018, as well as some additional cash we're accumulating to face a BRL 1.5 billion debt obligation at the end of 2018. The bars on the left side of the chart show third-party cash which amounted to BRL 2.7 billion, mainly composed by market participants' cash collateral of BRL 1.9 billion. The company earns interest income on most of this cash balance.

Finally, in slide 14, you see the company's debt profile and amortization schedule. Currently, our financial leverage is temporarily higher, with a gross debt-to-adjusted EBITDA ratio of 2.1 times in the fourth quarter of 2017. Our target is to reduce this ratio to 1 time by the end of 2019, following the debt amortization schedule you see in the bar graph on the left side. As you see in the chart, we have a BRL 1.5 billion debt obligation amortizing for December 2018. And considering the existing company's cash position and the cash generation we forecast for the year, we believe that we'll be able to amortize this debt at the same time that we keep a payout ratio between 70% and 80% of IFRS net income.

With that, I'll conclude this part of the presentation and I'd like to open to your questions please.

Q&A

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session from investors and analysts. Our first question comes from Alexandre Spada, Itaú BBA.

Q - Alexandre Spada {BIO 16687974 <GO>}

Hi, gentlemen. Good morning and congratulations on the results. I have two questions actually. The first one is, if I recall well, your current equities pricing policy includes some incremental discounts that start at a certain ADTV level. Can you remind us of this rule and also comment on what you think could be the implications, if any, to the equities margin if the volumes sustain where they are currently around the BRL 12 billion per day? And then, I'll come back with the second question.

A - Rogério de Araújo Santana

Hi, Spada. This is Rogério. Thanks for the question. Yes, you are correct. We have announced to the market two years ago a specific pricing policy for the equities business in the Bovespa segment that sets some thresholds in terms of discounts. So, what it means, according to this policy, anytime - if in a particular month, the average daily traded value in that particular month is above BRL 9 billion, we're going to apply a discount on the amount that exceeds this BRL 9 billion. Then, the second threshold would be applying the same mechanics on the threshold of BRL 11 billion, and then finally in BRL 13 billion. So, this is the way it was a decision we took some years ago to show to our markets, our clients, our regulators that we are willing to provide some kind of incentives that would, at the same time, reduce the trading costs for the overall market, and for some clients, it could result in additional volumes.

So, it was - at that time, we are BRL 2 billion below this threshold, now it's becoming more recurring. We will see ADTV above BRL 9 billion. So, applying this discount rate, we would have a marginal discount, and considering the level that we are seeing today between BRL 10 billion and BRL 11 billion, the impact in terms of average fee should not be significant, but negative. What it means, we expect that at this level, the impact in terms of pricing would range between 1% and 3% of the average fee.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay, exactly.

A - Rogério de Araújo Santana

Of course, if volumes keep growing, this amount that exceeds this threshold will become more relevant when you calculate the weighted price.

Q - Alexandre Spada {BIO 16687974 <GO>}

Sure. That's very clear. Thank you, Rogério. And if you allow me another question, is it possible that the synergies from the integration with Cetip exceed the BRL 100 million per year that have been estimated previously? And I'm asking you that because the BRL 100 million was actually reached faster than you were expecting, in the first place. So, if that's exceeded, does that mean Bovespa will raise the discounts granted to the market, which was promised to be about one-third of the synergies or whatever you capture in excess of this BRL 100 million will be kept fully by the company?

A - Daniel Sonder {BIO 18250247 <GO>}

Yeah. Thank you, Spada. This is Daniel here. So, we raised our target slightly from BRL 100 million to BRL 110 million, with a sort of final period for reaching the BRL 110 million by 2021. We don't expect to see additional synergies coming from the combination. We had a reasonable amount of

information on the two companies, obviously, the team at BM&FBOVESPA and new BM&FBOVESPA was very well, Cetip had significant public information, and we kind of knew the structure of the company.

So, when we announced the target for synergies, this was already I think pretty well informed from our side. What we did effectively was to move a little bit faster in implementing them. And I want to just congratulate all my colleagues and the team here for having taken the decisions in terms of organizational structure, team sizes, as well as contract overlaps and so forth that allowed us to move faster than initially planned.

So, we don't think that there are more savings coming from the combination itself. We'll continue to pursue a tight expense policy as we have in the past. But we feel that the decisions that needed to be made related to the merger itself, be that in terms of team size or suppliers that we were able to consolidate, those decisions were already done.

Our commitment to share synergies with our clients is a strong commitment obviously. We have discussed with them where to apply those in the best possible way through our pricing and products committee that has been functioning since the combination took place. So, the number is BRL 110 million, BRL 100 million this year, another BRL 10 million by 2021 when we finish the data center combination, and that's what we have for now.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. And if you allow me a very quick follow-up, in 2018, the approximately BRL 30 million in discounts, they will be fully affecting the numbers, right, throughout the full year?

A - Daniel Sonder {BIO 18250247 <GO>}

Yes, absolutely. Yeah, they will. And you will see, I mean, the lion's share of that in the Cetip UTVM, the Cetip Securities unit.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay.

A - Rogério de Araújo Santana

And it means that in the first half of 2018, when you compare to the previous year, that was before we start to accrue this discount, you're going to see a negative impact in the comps. When we enter in the second half of the year, you're going to be in a more normal comps base, because we are already accruing this discount since July this year..

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. That's very clear.

A - Rogério de Araújo Santana

...last year, sorry.

Q - Alexandre Spada {BIO 16687974 <GO>}

Thank you very much.

Operator

The next question comes from Tito LaBarta, Deutsche Bank.

Q - Tito LaBarta {BIO 20837559 <GO>}

Hi. Good morning. Thanks for the call. Couple of questions also, first on your expenses on the guidance, I understand expenses you expect to be relatively flat this year as you're incorporating the synergies for the Cetip related to that. Just after this year, can you maintain that level of expenses or how should we think about expense growth beyond this year once you've kind of captured most of the synergies related to Cetip? And then, I'll have another question after that.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you, Tito. So, expenses for the year, we guided in the same range as last year, BRL 1.050 billion to BRL 1.100 billion, that is obviously linked to the fact that we are capturing all the synergies already in 2018. So, you can infer that there would have been some natural growth in expenses in the company where if not for the synergies. That will continue to be the case going forward.

I think both companies did a lot of work in terms of expense management in the previous years. Particularly on the BM&FBOVESPA side, we had a challenging business environment (00:26:50) growing nicer or well better than BM&FBOVESPA. But I think both companies did a lot of trimming of expenses, and we did that again this year as we went through the merger and reviewed our entire budget.

I would not like to guide expense growth that is inflation or below inflation again, because I think that this would be very hard to execute, to be frank. Our largest expense is payroll and we repeatedly see collective bargaining agreements in Brazil with real wage gains of 1% to 2% and we are affected by that. In IT line, which is the second largest line in the company, it's again hard to indicate that we will grow at or below inflation, because we have a natural - relatively small, but continuous growth in our IT infrastructure as systems become more sophisticated, cybersecurity becomes a larger portion of what we spend money on and so forth.

Plus, we are looking to be closer to our clients, to have more market intelligence and to perhaps develop a few new ideas within the company. So, we remain absolutely committed to containing our expenses, but the number will probably be a little bit above inflation. That's what we are working on, on 2019 and beyond. Slightly above inflation I think is reasonable, maybe we can do a little bit better, but I don't expect a lot better than that.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. That's helpful, Daniel. Thank you. Then my second question in the Cetip segment, you noticed the quarter is impacted a bit by, you mentioned, regulation regarding the debentures to the leasing company. Also, can you give an update on potential competition in the auto registration front that the government has talked about and also mortgage registration? So, any regulatory impact that you're seeing on Cetip, if you can talk a little bit more about that? Thank you.

A - Rogério de Araújo Santana

Hi, Tito. This is Rogério. Well, we are still following the recent developments in terms of new regulation that applies on the Financing units of our business. As you know, we offer two different services in this segment: we manage the national database for liens registration that we call SNG; and we support the banks in the services in terms of transmitting the lowest information to the local DMVs, and as a consequence, the local DMV can issue the documents of the vehicles with the precise restrictions on the name of the bank.

So, both services are - have been impacted by recent regulatory change. The first one, that is the creation of (00:30:06) that's going to be a national state-owned database, has been discussed in the working group composed by representatives of the governments, of the regulatory agencies, and also from the private sector. It's not clear at this point what is going to be the final impact and how exactly this new database is going to work, and it depends on how it's going to be implemented. It could or not hurt the SNG business.

It's not clear at this point. These regulations are going to be implemented in September 2018. And the way it's going to be implemented and how it's going to be implemented is being discussed within this working group. So, that is no - we do not have visibility yet on what could be - if it exists, what could be the impact in the SNG.

Regarding the second service, that is the transmission of data about loans to the local DMVs in Brazil, we are facing also some regulatory changes. There are consequences of this new federal regulation. The way it was implemented in Minas Gerais impeded us to keep offering our services since September last year. In the case of São Paulo, where you also have this regulatory change, we are still discussing with the local DMV, with the banks, and with new potential players that will be involved on that, what is going to be the new business model that we're working in São Paulo.

So, these discussions and negotiations are not concluded at this point. And so, as a consequence, we also do not have visibility on how it could impact our business. We are working on that. We are focused on that. We believe that we're pre-aligned with the banks. We know the importance of the services for the credit business in Brazil, and we believe that in the coming weeks or maybe months, we'll have a solution for that.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. Thanks, Rogério. So, I guess it's difficult to quantify given just a lack the visibility that you mentioned, but just in terms of the Securities segment for Cetip, is it safe to assume that the growth should be below what's been in the past, given all those uncertainty? I mean, is that how we should think about it?

A - Rogério de Araújo Santana

Well, just one additional comment, and then check if I understood correctly your question. But just one last comment to give more precise information for the audience in this call, the Financing unit that is suffering with this regulatory change represents roughly 9% of our business, the SMG represents roughly 3.5% of total revenues, and the Contract Systems represents roughly 4.5%. So, this is the portion of our top line that could potentially be affected by the regulatory change. So, I don't know if I understood correctly, Tito. I think you mentioned the Securities unit, but I believe that you are mentioning - you are referring to the Financing unit, correct?

Q - Tito LaBarta {BIO 20837559 <GO>}

Well, I guess the both at risk, right, from regulation. So, maybe it's (00:34:04)

A - Rogério de Araújo Santana

Well, there is no - we do not have similar discussions for the Securities unit. What we saw in the Securities inflow is regulation that applies on the banks that oblige them to replace one specific funding instrument that they were using that was the leasing debentures. They were obliged to replace that for CDs (00:34:29). And it is a gradual process that started in 2017, and it should go through 2018 and maybe be concluded in 2019.

So, I think it is - there is no discussion on regulations on our business. What happened was the regulation that applies on the important group of clients, obliged them to change their behavior. And that was not a surprise. This was a regulation that the Central Bank discussed with us and the banks over quite some time, and finally implemented it. And gradually sort of, there is a migration from one type of funding to another type of funding, which has different pricing for us. So, the regulatory framework within the Securities unit is Central Bank-led and one that is much more transparent and well known to us with lesser prices. The regulation of the Financing unit is led by the transit (00:35:30) departments, and unfortunately, there is less visibility on changes that may come from that end.

A - Daniel Sonder {BIO 18250247 <GO>}

And fragmentation of regulation as well.

A - Rogério de Araújo Santana

Correct.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. Actually, that's helpful. Thank you.

Operator

The next question comes from Carlos Macedo, Goldman Sachs.

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

Hi, Daniel, Rogério. Thank you for taking questions. First, the question that I have is more related to the revenue side really. Obviously, a lot of volatility in global markets in the U.S., we've seen that a lot. How do you think - how does B3 now with the complete package benefit from volatility in capital markets? Is it something you expect to see benefit volumes in equities and derivatives with respect to Financing business or more importantly in the Securities business?

And also, if you could give an update on the products that hopefully you have in your pipeline that might be able to take advantage of that, remembering that this year, there's an election in Brazil and that typically brings a lot of volatility to the markets? Thanks.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you. So, we are obviously very exposed long-term to investor appetite and sentiment regarding the Brazilian economy, emerging market economies, and the global investment climate more generally, Carlos. So, obviously, we are going through a very benign period right now with synchronized growth and a lot of money available for investment around the globe and we, I think, have benefited from that. And to the extent that Brazil continues to stay on the right course in terms of economic growth and possibly further fiscal adjustment during 2018 and through the elections, I believe that our main businesses will benefit enormously from that.

If we see a realignment of investor strategies or a shift in investor strategies away from risk that is negative to all of our asset classes in the long-term or business classes in the long-term. In the short-term, derivatives would benefit from that as investors seek protection typically in FX products, that's what we saw in 2014, and then again in 2015 and 2016 when there was considerable uncertainty about the Brazilian political scenario, and people used derivatives as a way to acquire hedge and protection from that.

We do not have any specific volatility related products at this point in the immediate pipeline. So, we don't get to say an additional boost from people using those products in a larger amount, but again FX derivatives is the way that we typically see people seeking protection. So, what has happened over a long cycle when we looked at these trends is that BOVESPA shares equity business, and especially the U.S. dollar linked portion of BM&F business, derivatives tend to net one another.

The OTC derivatives business, in particular the FX contracts also helped when the scenario becomes more difficult. And in fact, what you saw over the last year is that because there was a pretty good scenario and stable FX rates in Brazil, the volume of FX derivatives in OTC went down because corporates were less concerned about doing those transactions with their banks, and that hurt that line a little bit within the Cetip Securities unit.

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So, I hope that answers your question. I think that we are pretty well positioned in any kind of scenario, volatility is usually good in the short term, but it all depends where it ends up. If it ends up in a bad scenario for Brazilian markets, then we win in the short-term, but lose in the long-term. If after volatility, we end up in a more positive scenario, then it's great twice short-term and long-term.

A - Carlos G. Macedo {BIO 15158925 <GO>}

Okay, great. Just a little follow-up here, can you give us a general update in product pipeline, just trying to get an idea of how we can also leverage your – in addition to expenses to drive EBITDA growth or maybe you could drive new products and expand revenues as well.

A - Rogério de Araújo Santana

Well, hi, Macedo. This is Rogério. What we have in our pipeline today are some specific projects or product related mainly to the listed market. So, we keep working to try to attract more market makers. We keep working to try to receive the authorization for foreign investors to lend shares in Brazil. You know that most of them face some regulatory restrictions selling shares in Brazil, and it could be very significant for the hedge fund industry implement their strategies here.

Fixed income ETF is also something that, in terms of regulation and infrastructure, is everything's fast. We are still waiting for market players to take their step, and start to design and launch this product. It could be relevant for us as well. We are discussing, as we mentioned our Investors Day last year, also volatility-related products, having a kind of (00:42:00) version. We are discussing with our providers to develop that, this is pretty much what we have work at now.

But as Daniel mentioned, we are redesigning, I would say, our clients and product development departments to try to be closer to our clients and be more agile in terms of product development, and try to take advantage of this significant change that we're seeing in the Brazilian market with lower rates, with potential diversification of investors' portfolio, and we are sure that we're going to play a very important role in this area and trying to put in place the products that the market is demanding.

A - Carlos G. Macedo {BIO 15158925 <GO>}

Okay, great. Thank you.

Operator

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

A - Daniel Sonder {BIO 18250247 <GO>}

I just wanted to thank everyone again for joining the call, for following our company, and for your continuous engagement with us. Please feel free to reach out to our Investor Relations team anytime if you have additional questions, and have a good day.

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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