

Q2 2021 Earnings Call

Company Participants

- Daniel Sonder, Vice President for Finance, Corporate & Investor Relations and Member of Collegiate Board
- Marcela Bretas, Managing Director of Investor Relations, M&A, Strategy

Other Participants

- Ian White
- Marcelo Telles
- Marco Calvi
- Mario Pierry
- Mark Jason
- Titus Labarta

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the audio Conference Call of B3's Earnings Results for the Second Quarter of 2021. 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. (Operator Instructions) 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, Corporate and Investor Relations Officer.

Daniel Sonder {BIO 18250247 <GO>}

Thank you, everyone. Thank you for joining the call. I'm here with Marcela Bretas, Managing Director for Investor Relations, M&A and strategy and the rest of the IR team. And just wanted to start by thanking them for putting together all the materials for our second quarter release I will make some very brief comments. Marcela will also make some very brief comments, and then we can open for Q&A and hopefully, have a fruitful discussion for everyone.

So just to start, we are seeing a very favorable environment for our business and for the development of capital and financial markets in general. We still have low interest rates and inflation under control in Brazil, and this obviously has helped support the development of several lines of our business and has contributed to the positive results in all areas of our company in the year-on-year comparison that we released yesterday.

In the capital markets, we had record inflows of money in equities with BRL46 billion total in transactions with 13 IPOs and 10 follow-ons, as well as our fixed income business, which has done very well with 14% year-on-year growth on fixed income issuances. We continue to see a very, very strong pipeline of transactions both in equity and fixed income, and this obviously has encouraged us to continue to pursue our strategy of further developing our product set within B3. So, Marcela will discuss a little bit the numbers, and then I'll come back at the end. Thank you.

Marcela Bretas

Thank you, Daniel. Good morning, everyone. So, I'll go briefly through the results of our main business segments. Starting with listed segment for equities and FICC. ADTV in the quarter was BRL 33 billion, which was 17% higher than last year, but 10% lower than in the previous quarter. What we've noticed here is that we continue to see an appreciation of the asset, so market cap was up 54% year-on-year and 6% quarter on quarter. However, we sought a declining volatility which caused turnover velocity to reach a lower level in the second quarter of 149%. Overall, listed segment revenues were up 19.5% year-on-year. For the OTC segment, revenues were up 6.8% driven by more funding instruments issuances, especially time deposits as bank continue to fund themselves to expand credit activity here in Brazil.

OTC derivatives continue to contribute with positive growth, which were up 22% in stocks this quarter. In the financing for infrastructure unit, we saw an increase in revenues of 48.5% driven by the recovery of the vehicle sales and financing market which were heavily impacted by the pandemic last year. So this year, we see a much more positive dynamic in these segments.

Finally, in the technology segment, we saw revenues up 24.3%, driven mostly by the monthly utilization line. It continued to see a growth in the number of market participants, mainly new firms that continue to surge here in Brazil. In the wire transfers line, (inaudible) line, we saw a decrease in volumes of 23.5%. However, given the nature of the pricing here which has a high correlation with volume, the decrease in the revenue for this line was not as sharp since volumes have decreased. As volume decreases -- since discounts decreases, volume decrease as well. Finally, moving on to expenses, we published a new guidance for adjusted expenses to reflect the higher activity and the expansion of our business line. So, we have a new guidance in place that is roughly 5% higher than the guidance that we had previously. And in May, we issued BRL3 billion in local debentures, bringing our total leverage to 1.4 gross debt to EBITDA.

So, moving back to you, Daniel.

Daniel Sonder {BIO 18250247 <GO>}

Thank you. I just wanted to take a minute to discuss the recent transaction that we executed with TOTVS as a partnership investing in Dimensa, which is a company that was spun off out of TOTVS for their financial services vertical, and we're very, very excited about this transaction. TOTVS is a fantastic company and we're sure they're going to be a great partner. We've had a relationship with them for a long time and I think it's a great example of how we are becoming more flexible and more open to pursuing initiatives in areas adjacent to our business. This is another transaction, we've done two smaller M&As back two years ago. And I think, we'll continue to pursue ways in which we can develop beyond the current activities of B3 with which, by the way we are extremely excited and where there's a lot of innovation and new product development as well, and we can discuss this in the call when we try to make it clear in our materials. This transaction creates a separate entity out of TOTVS. Dimensa will be a separately managed company with a refreshed management team coming from experiences outside, but also, counting on the successful trajectory that they already had in serving the financial industry. Their main clients are the back office functions of the large custodians and fund managers. And we are obviously bringing in not only capital, but also our knowhow and our strength as a financial market infrastructure and our relationships with all these clients, which are already clients of B3. And we hope we can leverage in developing new products and expanding the footprint of Dimensa. The transaction is aligned with our strategy of diversifying around our core business, and we're going to have an active role participating in the senior leadership positions, as well as the Board of Dimensa. We're still waiting for the final regulatory approvals for this deal, but I wanted to highlight that as a very positive development in our strategy.

And finally, I just want to make note that you might have read in our release that we have made a reassessment of one of our contingent -- legal discussions in contingencies, and I'm happy to answer questions in the Q&A, if you want to address that as well.

Thank you. And we can now move to Q&A.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Mario Pierry with Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. Congratulations on the results. You continue to deliver strong revenue growth, stronger margin expansion. So, congratulations on that. My question then is related to what you just said at the end, right? This reclassification of this legal contingency from remote to possible. This is quite a sizeable amount, kind of about BRL31 billion, which represents almost one-third of your market cap. So, I'd like to understand a little bit more, why are you doing this now? If you need to build -- if you think you're going to need to build any provisions in the future? And when should we expect a final decision on this matter?

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Mario, so let me take your questions directly, and then I'll talk a little bit broadly -- more broadly about the case. So, we don't expect to have to make any provisions. We believe we're going to win this case, and it's classified as a possible and therefore, no provisions are required, and we don't expect to have to make.

In terms of the timing, it's very, very unclear. What -- the best that I can tell you right now is exactly what we hear from our legal advisors, which is they expect this to be ruled within three years. That's as accurate as one can be unfortunately in the, let's say, Appeals Court, in the Senior Courts in the judicial system. In Brazil, obviously, they have a lot of cases, and therefore we -- I cannot be more precise than that.

Taking now a step back, I just want to make a few remarks here. This is an old case and it's a relevant case obviously. And from the very beginning, B3 adopted a conservative position regarding its disclosure. Although it was classified as a remote probability of loss, which does not technically require any disclosure by the company, we have from the very outset of this case many, many years ago, chosen to disclose it in our financial statements and in our 20-F (inaudible).

So, this is the first thing that I wanted to mention that although, it might not have been on the radar of many people, it's something that the company always followed very closely and took very seriously in terms of making sure that people have access to this information.

The second point, I want to make is that the last ruling on this case was amply favorable to B3. We had a positive decision of four-to-one in the Appeals Court in 2017 regarding this case, reversing a negative decision that we had in the lower court. The case, I'm not going to get into the details, but the case dates back to 1999 at the time of the currency crisis/change of the currency regime in Brazil. There were -- as some of you might remember, there was an imminent systemic crisis that was about to happen. The Central Bank intervened in the financial markets to prevent a domino effect of banks contagion. And years later, there was a suit brought on by the authorities against the two banks at that time, their owners, the Central Bank, the Directors and Officers of the Central Bank, and they chose to include BM&F at the time, which was a predecessor company of B3. And the link that they brought onto BM&F's alleged involvement in these events was that BM&F stated to the authorities at the time that they believed that there was a risk of a systemic crisis.

And the case alleges that because of these statements that BM&F made, the authorities took some decisions which were hurtful to the public purse.

So that is the nature of this case. We have very strong defense arguments and that is what led to the positive decision. In fact, we had judicial experts that provided a statement saying that in fact, there was systemic risk, that BM&F did not receive any financial benefits or gains from these events, that they not even did the -- our company prevent any losses from what ensued which was the Central Bank intervention. So, even if there were no Central Bank intervention, this evaluation says that we will not have had any losses and therefore that there were not -- and finally, that there were no losses to the treasury regarding these transactions. These statements which I just made were very significant to leading to this positive decision that I just mentioned. We also brought several experts to support our case, that what we did was absolutely within the rightful behavior for a financial market infrastructure given the circumstances back in 1999.

So we are very confident that this will turn out well. However, this is a case that is, let's say, alive and therefore it has some procedural steps that it takes which I could detail more, if you would like. But our legal advisors, given a number of small things that have happened over the course of time since the last judgment, came to us with a reassessment. And we chose to be conservative and take that recommendation. And also, we chose as you know no less, how we are in this company. We also chose to be very upfront with you with the shareholder community about it, and supported obviously by all the governance, bodies of the company, the Audit Committee, the Board of Directors, the Fiscal Board and so forth. I hope this was helpful, but please let me know if you have any follow ons.

Q - Mario Pierry {BIO 1505554 <GO>}

Yeah, no, that's very clear. So, like you said, right, a final decision could still take another three years. So, can you go through these procedural steps? What are we expected to hear and when? So what are the next steps here? When can we be expecting some news flow?

A - Daniel Sonder {BIO 18250247 <GO>}

Sure, Mario. I can't tell you when we can expect news flow. What will happen next is that the case was accepted for appeal. So the government side, right, the state prosecutors appealed the four-to-one decision, which is in our favor and their appeal was not reviewed on its merit, but it was accepted as a legitimate ground for appeal in the (inaudible) which is actually the circuit court equivalent in the U.S., the second to last court level before the Supreme Court. And that's where it stands, and it might be looked over in the next 36 months. That's what we hear from our legal advisors.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

Operator

Our next question comes from Marco Calvi with Itau BBA.

Q - Marco Calvi {BIO 19854632 <GO>}

Hello. Good morning. My question is regarding the recent agreement with TOTVS on Dimensa. Can you guys share with us, what is the game plan here? Is it to eventually list a company? And from a capital allocation standpoint, could we expect these sort of new investments in business that not necessarily are part of the core business of the company, but has a clear synergy with the core business of the company, like new agreements, like you guys did with TOTVS towards new business? That's my two questions. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. So Marco, in the second area, I think we have discussed that we are pursuing within our strategy plan, this idea of expanding beyond the core business, right? We have, as I mentioned, a very, very strong business in the core. And when we planned our next few years a few years ago, we basically said, there's three important things that we need to do. One is to make sure that we have the strength necessary to continue to maintain our capabilities, as well as the choice of our clients in the core business, investing in technology, investing in risk management, investing in updating our platforms, and making sure that all the potential areas where people could, let's say, see vulnerabilities and potentially attackers in the core would be well covered, and we -- I think we have executed on that.

We also decided to focus a lot of effort and people and energy and resources on expanding the core business, which means launching new products and services. And I think that if you look at our roadmap and if you look at the, let's say, execution track record that we've had over the last two years roughly in every quarter announcing new launches in and around the core, you will see that we have also been very successful in that part of the strategy. And we also announced at the time that we would focus maybe one-third of our resources and time and energy in these areas of expanding beyond the core business, which we call first adjacencies. And I think we've looked at a lot of opportunities. It's not always easy to execute on these ideas. Some of them are organic plans and some of them involve partnerships and acquisitions. And I think that the TOTVS example is one where we felt very strongly that this is an area where we want to be in. There is a huge transformation going on in the, let's say, technology areas of banks, to put it very simply. So, if you think of how incumbents are having to react to the new demands of clients and to the new competitive environment, and if you think about the number of new entrants and fin techs and new investment companies and new insurance companies and on and on and on that are entering the market, you can begin to estimate the amount of money that will be, let's say, available in this space and the amount of services that will be demanded.

TOTVS is a great company and they had this division. And frankly speaking, this was not for sale, TOTVS Financial Services was not for sale. And that's -- but we wanted to be in it and they felt it was a great opportunity. They wanted to spin it off. And we had a bilateral negotiation that took a few months to agree on the business model for this. They wanted to give it an independent life, and they wanted to have more capital to deploy to pursue other strategy that has two essential parts. One is really strengthening the product set that they currently have, they are in three business lines. One is that they are essentially the largest player in the fund management/custody business, helping all the large players in that role. They also have, what they call, a core banking product, which is a kind of a bank off the shelf if you will or bank as a service platform that you can basically use to put together all the key functions of a bank, and they also have a smaller credit card processing unit and they -- and that's also in there. So, some of the investments will go towards growing that business. And so, the investment will go towards an M&A strategy, and there is a very strong opportunity to consolidate in this sector, it's a very fragmented sector, there's 10s upon 10s of small software providers that orbitate [ph] within the financial ecosystem, and I think Dimensa will be in a very strong position to be a consolidator, using some of the skills that TOTVS over time and in particular, TOTVS' CEO which came from Linx has acquired in being a consolidator in the software segment.

Q - Marco Calvi {BIO 19854632 <GO>}

Great. Thank you. Very clear.

Operator

Our next question comes from Ian White with Autonomous Research.

Q - Ian White {BIO 15068031 <GO>}

Hi, good morning. Thanks for the presentation, for taking my questions. I have two please, both really focused on retail trading. And firstly, I'll be interested to hear your thoughts on the addressable market for your mini derivatives product. So, in other countries, we see some debate

about the extent to which leverage products are suited to a broader range of investors, most recently in the U.S. How do you see in Brazil, and has there been any recent discussion or change in tone from the CVM on this point please? That's question one. And just secondly, could you provide a bit of extra detail around the investor electronic channel that you mentioned you launched in June? Are there any KPIs that you're tracking that might tell us whether this has had or led to greater activity or engagement among retail investors as a result of this innovation at this early stage, please? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Thank you, Ian. Thank you for joining. And the -- I don't think that the CVM has changed its tone regarding the derivatives for retail. I think these products in Brazil are developing. I think, as you mentioned, there is significant growth in that, but it doesn't seem to us that there is a particular, let's say, reason for concern that there would be regulatory action on this. I think this is a constant discussion. The regulators obviously monitor it. I think that they expect that the industry will self-regulate, and that it will not, let's say, use any strategies that are too aggressive for this. But it is a concern of ours and of CVM. I think, we -- B3 and CVM play on the same side of this discussion of suitability. And I think it's a -- it's an important matter that we keep an eye on it, including leverage that you mentioned. And that the broker community also understand that this is a, let's say, an opportunity that has to be managed within, let's say, the limits of what's reasonable and adjusting the products and the sales strategy to the type of investor that you're dealing with, so which means obviously taking a more careful approach when you talk about retail. So, I don't think it is a big deal at this point in our mind. So maybe I'll ask Marcela to take the question on investor channel. Thank you.

A - Marcela Bretas

Good morning, Ian. So, these new investor channel is part of our strategy to cater to the new retail investors that that have been joining our market. So as you know, the number of retail investors has increased sharply over the last couple of years. We now have more than 3 million individual investors trading in our equity segment for instance, but are not only equities. I mean the diversification of portfolios is something that we've seen across all asset -- driving demand across all asset classes. So the intention of this new portal for investors is to improve user experience from those retail investors when accessing the information so that it's easier for them to manage their portfolio across all different asset classes that they have invested within B3. So we change the interface that this portal has with clients. And we are adding new features that will make their life easier hopefully, in terms of managing their positions within B3. We are adding APIs in order to complement the technology that we offer in-house, and the idea is that we will continue to add more features so that these investors can frankly have in this portal one-stop shop for managing their portfolios.

A - Daniel Sonder {BIO 18250247 <GO>}

Yeah. Let me just make one comment here going back to your previous point about mini contract. We only have about 200,000 individuals that trade mini Ibovespa and about 130,000 individuals who are trading in the mini U.S. dollar. So it's -- obviously, the volume has increased a lot. But it is not like a product that there are millions upon millions of people that are newcomers in the market that are using it in our view. But still, I stick to my earlier comments on the importance of managing suitability very, very well. And we are obviously on the side of prudence in this.

Q - Ian White {BIO 15068031 <GO>}

Understood. Thanks, both. It's very helpful.

Operator

Our next question comes from Mark Jason with Invesco [ph].

Q - Mark Jason {BIO 4289233 <GO>}

Yeah. Hi, Daniel. And thank you very much for taking the time this morning. So I just want to follow up on Mario Pierry's question. And I want to understand what went into the decision to reclassify from possibility of loss from remote to possible. I just need to understand more about, what were the key changes, the reasoning from your legal team. Can you give us some more insight into this?

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. I think from the management of the company, the main reason is the recommendation of outside counsel, more than one, which we strongly rely on. And the -- if I want to go a little bit deeper into this, if you consider that for you to be classified as a remote case, you need to have 70 plus comfort -- 70% plus comfort that you're going to win, and they felt that it was maybe slightly less than that. And there was a combination of events. This is obviously a case that we won four-to-one, but it was not unanimous. That's one reason.

The second is that when we won four-to-one, it was a reversal of a lower court decision which maybe the higher court will take that. The higher court has, as I mentioned, accepted the grounds for appeal, not to review the merits, but accepted that it will review the case. And finally, we had these memos by the prosecution stressing obviously -- making their case again, but also highlighting that there were some other connected cases, which are not this case directly, but they were connected to the financial crisis of 1999, where there were some negative decisions against the -- not against us, but against some of the other co-defendants, particularly the bank owners, the owners of the two small banks, which are connected to this. So, the prosecution brought on these reasons.

And finally, the fact that the court chose a judge to review the case and be the Repertoire, as we call the (inaudible) of the case. So, this is the reasons that were outlined for us. And again, our view is that we have to be conservative and transparent about these things and then that's what we did. So there's no one big reason as I mentioned, and you'll say, what's unusual here. None of these things, frankly, are unusual in and of themselves. It was a combination of them, kind of sort of a tipping point that slightly move the needle from probability remote to probability possible. Is that better?

Q - Mark Jason {BIO 4289233 <GO>}

Yeah, that's helpful. I'm just wondering, how -- so in terms of the probability of something happening here, someone said it was 30% to 70% potential, and then maybe that would be reduced, if you settle. So the potential loss, do you -- have you come up with an estimate of a potential loss?

A - Daniel Sonder {BIO 18250247 <GO>}

No, we don't. We don't have that number of the potential loss. The right way to disclose this is the way we are doing it, which is basically give you two numbers. One is -- actually, one is not a number, one is a range, which is 30 to 70, which is what technically means when you say there's a possible case, and the other one is the full amount of the potential loss. So there's not a lot more than that I know or that I should give you because this is the way that the profession requires us to disclose.

Q - Mark Jason {BIO 4289233 <GO>}

At what point would you have to make a provision? What would have to change for there to be a provisioning associated with this?

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. So the, let's say, the methodology, right, from a legal perspective and from an accounting perspective is as follows. The legal experts will basically say whether this is remote possible or

probable. Remote is if you think you're going to win with 70% or more likelihood. Probable loss is if you think you're going to lose with 70% or more probability. And possible is everything in between. And then they don't say the percentage that they are attributing to this because it's not a scientific number, it's a range. And the second part is that then the accounting rules will say, if you have a remote case, you don't have to make any provisions and in fact, you don't have to disclose, although as I mentioned at the beginning, we did choose to disclose it even though it was classified as remote. Then it says, if you classify it as possible loss, then you have to make a disclosure, but you still don't have to make any provisions. And if you classify it as a probable loss, then you have to make a full provision. That's how this works in cases, in let's say, situations, where there is a very large number of small cases. So for example, companies which is not the case of B3, but just companies that have a lot of, let's say, labor claims in Brazil, they do statistic treatments.

So, instead of looking at each one of the individual cases, they will say statistically, we lose X%. So we're going to provision X% of all the case that we have. We don't have that situation of, let's say, a vast number of cases or any type of things like that. So we look at each case individually and decide on the provision that we're going to do.

Q - Mark Jason {BIO 4289233 <GO>}

Okay, great. I appreciate that. Thank you so much.

A - Daniel Sonder {BIO 18250247 <GO>}

No problem.

Operator

The next question comes from Titus Labarta with Goldman Sachs.

Q - Titus Labarta

Hi. Good morning, Daniel, Marcela. Thank you for the call. A couple questions also. Maybe just one follow-up, this one a legal topic. How about on the goodwill lawsuit? Just could you give us an update on the timing of that? Any additional color you can provide there. And then I guess along those lines, in terms of timing for this contingency, is this something that could be similar to the goodwill lawsuit that will just kind of get held up in the court for several years? Or just any color you can provide on the timing. And then my second question on the revised OpEx guidance. Do you think, is this just a one-time or given all the investments and product that you're making, will you continue to need to have more expenses related to these products? And any color you can provide on potential payback on any of these products where you see revenue here -- increasing ability to gain revenues from them and you get a payback on these expenses. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. Titus, thank you. So there are no updates on the goodwill case. We are still following that very closely. As you might know, the Administrative Court that reviews (inaudible) cases in Brazil, which is called the (inaudible), they have basically taken on only small cases since the beginning of the pandemic in March 2020. So for the last 18 months, they have not revealed any large tax cases. And obviously, our cases are very large. They decided to do that because they were working remotely and so on. And also, there is, as you might recall, there was a recent change in the law, which says that the revenue services which make up these Appeal Courts alongside representatives of the private sector and of the taxpayers, the revenue service does no longer have the casting vote, if there is a tie, which was an important element in these rulings, particularly including the cases of B3, which we always lost by the casting vote. So if there was a tie and the (inaudible) ended the tie by voting against us. This new law came into effect, but the (inaudible) decided to appeal it, so it's under appeal. And it seems to us and to some legal advisors which are in this market that one of the reasons why they've also not reviewed many large cases is that they seem to be waiting for their appeal to be considered and possibly try to regain this casting vote,

which is obviously an important feature of the appeals model. So sorry for the long answer, but I just wanted to give you a little bit of context of why we haven't heard anything on the goodwill cases recently.

You mentioned again the timing of the -- of this other matter which relates to the FX devaluation of 1999. We don't know how much time it will take. I -- we asked this question a million times from our advisors and I insisted very much that our team would come up with some information that I could share with you regarding the timing, and the best that they can do is that they expected this would be in the next 36 months. And that's what I can say right now, but it could be much longer. Obviously, there are cases that stay in the higher courts for several years. So that's what I have.

And finally, your question on expenses. We are speeding up or increasing our execution of projects and new launches in the company, this is good news. And I think that we are comfortable given the success that we're having in so many businesses and the cash flow that the company is generating. You feel very comfortable, increasing our guidance by roughly 5%, BRL70 million to support the efforts of all the business teams and the operations teams that are developing these platforms.

So we -- I think we went over a few of the launches in the materials that we disclosed. We can review them if you'd like, but it's small things that we keep adding, small features in fixed income, in government bonds as we referred to in futures and so on. And this is what kind of mix-up the full product suite of B3. We don't give out individual kind of guidances on what the incremental amount of these things will be. But as you've seen in our numbers, I think we've done very well in serving our market. And it's also very important from a strategic point of view that we don't let any flanks, that we don't leave any openings for potential competitors to challenges and for clients to say, there was something that we wanted to have done and we couldn't do it.

So for us, preserving the core business and the strength that we see in the growth of the equities and futures and registration market is also dependent on building out these new products even though they might be small for some time. And then all of a sudden, they might become relevant. And that's the case for things like (inaudible) for things like ETFs for example, BDRs, things that several years ago, if I were to tell you -- and you've been kind enough and patient enough to follow us for many, many years, if I were to tell you just a few years back that REITs which are (inaudible) plus BDRs, plus ETFs would be giving us BRL2 billion of ADTV per day, we wouldn't have believed it, me and I -- you and I. So, and this is the case today. These three products bring in average of BRL2 billion of ADTV today. And they were, these kind of marginal investments that we did in the past.

So we're very comfortable that this is right choice even though our expenses are a little bit higher this year. And we honestly, we don't like to review guidance. But, when the company demands it and the business supports it, it's the right thing to do. And obviously, in our budget exercise for next year and our guidance for next year, we'll take -- we will try to take into full account increased capacity of the company to deliver more products and services to the clients.

Q - Titus Labarta

Great. Thank, Daniel for the very thorough answers. Maybe just one follow-up, Daniel, because you mentioned part of this is strategic and that leaves room for competitors. Any update on the competitive front? Any segments where you see competition could be imminent? Any color on that would be helpful.

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. Look, I think it's a very interesting question. I think we continue to see competitors around us and this is something that motivates us to continue to improve our services. We have registration platforms that have a very, very small market share. I think we've been able to do a number of things to maintain our dominance in security registration, bank funding instruments and so forth, including a recent launch that we mentioned in our materials of a new, more flexible platform for

one of the large financial groups in Brazil. This was kind of a specific project that we used, a partnership with a fin tech company to put together something in a few months, that I think now we can scale and offer to other people, but it was fantastic. That's a new way of the B3 developing things, and which, let's say, meets head on, the kind of pitch that another registration platform would say to clients which is, we are small, we're nimble, we're faster than B3, we can deliver a solution to you. And we went there and did exactly that, using our partnership with a very great fin tech team that worked alongside us. So, we're very happy to be exploring these new ways because again, it's a way to keep the competition at bay.

The other area which I think is worth mentioning regarding competition is listings, right? If you recall our conference calls maybe two and a half years ago, there was a lot of discussion about the potential risk of their most relevant and most interesting listings being exported out of Brazil. And this was at the time of the listing abroad of three financial-related companies, and there was some concern about that. And I think that we worked, and also the industry community in Brazil has worked to make sure that, that B3 remains the chosen place for most of the listings. Yes, one or two will happen abroad, but we worked with the regulators on BDRs. We worked with it with investors to also educate them on a number of things and I think that we have been rewarded by more and more companies including some of the most, let's say, technologically focused and innovative companies choosing to list here.

So the competition will be a fact, will be a feature of what we do. And I think we're trying to take actions to maintain the kind of credibility and relationship that we want with our clients. And in terms of competition in equity trading, there hasn't been any new developments recently.

Q - Titus Labarta

Great. It's very helpful. Thank you, Daniel,

Operator

Our next question comes from Marcelo Telles with Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, Daniel. Thank you so much for your time. I have a question regarding the public consultation. What is the latest? Do you have any expectation in terms of when we could expect that to come to light? Will it take a while or could be in the short term? And where do you see the potential for the IOP for cash equities? Or how do you view the potential for (inaudible)? If you could comment on that, that'll be great. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you, Telles. Thank you for the question. We don't have any updates on when the CVM expects to move on any of the three parts of the public review and the public consultation on rule 461. We are continuing to work on this. We have, I think I've mentioned to you, we produced a lot of goods, reports and consulting work and so on which were made available to the regulators. We've since then had deeper discussions with them, including using these consultants to make deeper dive into all the aspects of this, some of the concerns that we've raised, some of the opportunities that we see, but also calling attention to some of the experiences that we've seen in foreign markets that in our view should really inform the regulator here. The -- one of the, let's say, advantages if you will, of having stayed a little bit behind in the development is that you can learn the lessons from other more mature markets, which have experienced, let's say, certain degree of deregulation and market segmentation over the last 10 to 15 years, and now are seeing the repercussions of that. And I think if you follow the recent comments, by the head of the SEC in the U.S., he has brought up a lot of points that I think deserved also the attention of our regulators to ensure that we don't move in the direction that others are actually moving away from.

And so, we continue to have these discussions. We've also tried to engage market participants in this and tried to bring to their attention some of these aspects. And with respect to RLP, we don't have any more recent updates. We continue to be in the discussions. As you know, there was a second round of -- there was a request for us to have a second round and expand RLP a little bit, the CVM came with some demands from our side and now we're in the process of, let's say, explaining technically some of these aspects, trying to accommodate some of their requests while maintaining the product. We believe strongly that RLP is a good way for the market to develop. It's safe. It's within the bounds of B3. It's transparent and it's limited in its size so that it doesn't hurt the price formation. So we are working to be able to maintain the product and maintain it in a healthy and disciplined way.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you, Daniel. Can I just follow up on your last comments regarding the RLP? I mean, have you seen a benefit from the RLP for many quarters in terms of liquidity, price formations. I was under the impression that, I think you guys at some point were supposed to release a study on the impact of the RLP in the market. Is that in the making? Or are you planning on publishing that at some point?

A - Daniel Sonder {BIO 18250247 <GO>}

Look, I think we do see benefits and I think that the regulator also recognizes these benefits and that's why they are exploring or considering expanding it into other products. I think because of the fact that it has brought on more people into this activity. Well, considering that it creates an opportunity -- an interesting commercial opportunity for some of the brokers, it has led to more people joining this market. And since there is a limit of only 15% of the asset class that can be done through RLP, there's the spillover of the remaining liquidity into the main book. So I think our view is a positive one and so is the regulator's.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you.

Operator

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>}

Sure. Thank you very much for joining. Thank you for the questions. I hope I was able to clarify everything. We remain very committed to transparency, very committed to letting you know what's going on, even when there are some changes in the assessments and so forth. And this is the way of doing things in our view and we thank you for your interest, your confidence. And if you have any further questions, please do let us know.

We continue to run the business with a 100% focus on our clients, on our operations, and on the amazing opportunities that there is for growth in the financial capital markets. So thank you very much. And again, thanks for the communications and the IR team for all the hard work over the last few days.

A - Marcela Bretas

Everyone, I think we ran out of time. But if you have any follow-up questions, the IR team is available, reach out to us, and we'll be happy to help. Thank you so much for joining our call. Have a good day.

Operator

That does conclude B3's audio conference for today. Thank you very much for your participation. Have a good day. And thank you for using Chorus Call Brasil.

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