Q1 2015 Earnings Call

Company Participants

- Daniel Sonder
- Eduardo Refinetti Guardia
- Luís Otávio Saliba Furtado
- Rogério de Araújo Santana

Other Participants

- Alexandre Spada
- Domingos Falavina
- Eduardo Nishio
- Francisco Kops
- Gustavo Lôbo
- Jorge Kuri

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call about the Earning Results of BM&FBOVESPA for the First Quarter of 2015. 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 broadcast live via webcast. The replay would 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, of BM&FBOVESPA.

Daniel Sonder {BIO 18250247 <GO>}

Good morning, everyone. Thank you very much again for joining our conference call. I just wanted to first extend the thanks to the IR and finance teams, which of course are a key part of making all this possible and also thanks to the sell-side analysts on the line, who have worked to help us communicate to the broader investor community our results.

I will now move into page three of the material that you likely have in front of you where we have the highlights for the first quarter of 2015. In the first quarter of 2015, our net revenues grew by 5.9% in comparison with the same period last year. This was caused mainly by volume increases in revenues from derivatives and from other business lines not connected to volumes.

As has happened over the previous years, our adjusted expenses grew significantly below inflation compared with the same period last year. Another highlight this quarter was the 28.9% increase in the financial results mainly as a consequence of higher interest rates in Brazil. Our adjusted net income grew by 4.2%, while adjusted earnings per share increased 7.1%. The difference between these two growth rates reflects the execution of our share buyback program from January 2014 to March 2015.

On the right side of the slide, you see the operational highlights for the quarter. In the BM&F segment, I would like to call your attention to the 13.7% increase in the rate per contract. One of the main factors that explains this jump in the RPC is the FX depreciation. Around 55% of the revenues from this segment are generated by contracts priced in U.S. dollars. In the other business lines that are not connected to volumes, the main highlights were the performances of both securities lending and Tesouro Direto.

With respect to our strategic initiatives, we have had some important accomplishments in the quarter. We moved forward in our OTC iBalcão initiative by adding new features and products to our fixed income securities registration platform, and announcing the migration of the OTC derivative contracts to a new sophisticated technological platform. Also, some of the enhancements in our price and incentive policies are already implemented and benefiting our results.

Finally, we announced an investment in Bolsa de Comercio de Santiago in line with our strategy of seeking expansion opportunities.

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

Rogério de Araújo Santana

Thank you, Daniel. Good morning, everyone. I would like to ask you to move to the slide number four, where you'll find some details on the BM&F segment performance. As mentioned by Daniel in the previous slide, the revenues growth in this segment was driven by an increase in the revenue per contract that grew 13.7% compared to the previous year's first quarter, and offset the 3.1% reduction in the ADV in the same period.

One of the main factors that explained the RPC increase was the Brazilian real depreciation against the U.S. dollar, since roughly one-third of our volumes in this segment comes from contracts that are priced in U.S. dollars, what represents approximately 55% of total – of the revenues in this segment.

The Brazilian real depreciation of 13.4% in this quarter bring – brought positive impact on the RPC or FX, interest rates in U.S. dollar, mini FX and some commodity contracts. Two other positive factors also impacted the RPC. And the first impact was the mix effect with change in the weights of different groups of contract in the overall volume. And also the breakdown between futures and options. Second, there was – the removal of the 10%

discount for clients that were trading through Direct Market Access in this segment, or what we call DMA, that was implemented in January 2015.

In the case of the ADV, the main highlights were the 50.4% increase in the interest rate in U.S. dollar contract, mainly as consequence of the volatility we saw (05:13) in the FX rates. And the 75.3% growth in the Mini contracts where we saw new clients increasing their trading activities.

And moving to slide number five, we have the Bovespa segment performance. As we can see in this first chart in the 1Q 2015 ADTV reached R$6.65 billion, a 3% year-over-year increase, which was partially offset by 1.8% reduction in trading and post-trading margins or 0.1 basis point.

The ADTV growth was driven by the increase in the turnover velocity to 71.8% in 1Q 2015 versus 69% in 1Q 2014. While the average market capitalization fell 1.4% to R$2.2 trillion. The trading and post-trading margins were negatively impacted by a mix effect. In the quarter, we had lower participation of equity derivatives in the overall volumes, hurting our margins, since we charge higher than average fees for these contracts. Another negative impact was the higher volumes connected to the expiration of options on indices as happened in the previous quarter. You can see more details on that in the slide 14 in the appendix to this presentation.

Finally, the greater participation of day traders also had a negative impact on margins since we charge lower fees for this type of transaction.

In slide number six, you can see our revenues breakdown. Particularly in this quarter, the derivatives markets gained more relevance in our total revenues. If we sum up financial and commodity derivatives, that represented 42.6%; and the derivatives on single stocks and indices adding another 3.3%, we reach 45.9% of total revenues versus 33.9% of cash equities.

We also highlight in this slide two factors that have positively influenced our top line. The FX rates that impacted more than 25% of our total revenues and the recent enhancements in our pricing and the discount policies, since some of these change were implemented in first quarter of 2015.

Now, I will pass the word back to Daniel, who will drive you through our expenses and other highlights.

Daniel Sonder {BIO 18250247 <GO>}

Thank you, Rogério. In the next slide, I'm in slide seven now, we show the expense breakdown for the quarter. Our adjusted expenses grew by 1.6% quarter-on-quarter against average IPCA inflation of 8.1% in the period. We had an extraordinary non-recurring provision of R$6.8 million in our personnel line. And if we were to reduce that provision – exclude that provision from our total expenses, our adjusted total expenses would have decreased quarter-on-quarter by 3.4%. Adjusted personnel expenses, which exclude long-term incentive plans and personnel expenses capitalized towards projects, increased 6.9% and, as I mentioned, was impacted by the provision.

Our data processing expenses grew by 5.4%, reflecting higher maintenance expenses connected to the deployment of the first phase of the BM&FBOVESPA Clearinghouse which happened in August 2014. Other expenses showed a 3.5% decrease, even considering higher energy costs and provisions.

Finally, we are reaffirming our 2015 adjusted expenses guidance between R$590 million and R$615 million. And we look – and if we look at the center point of this range, our adjusted expenses will be growing again at a pace of around 2% year-over-year.

In the next page, we wanted to look at the long-term incentive plan based on stock grants and the changes that that has created in our accounts. As we have discussed before, 2015 is the first year in which we will adopt a long-term incentive plan based on stock grants instead of stock options. This change has some impact on our income statement and this is what we'll look through in this slide.

Until last year, we were recognizing expenses connected only to the principal amount of stock options with no payroll taxes provisions or disbursements, and these expenses were not deductible for tax purposes.

Now, with the adoption of the stock grant plan, in addition to the principal amounts connected to such stock grants, we will also recognize 60.3% in payroll taxes over that amount, leading to an increase in the total expenses connected to the incentive program. On the other hand, however, the entire expense, meaning principal amount plus payroll taxes, becomes tax deductible, which offsets most of the potential impact on the net income.

In the table on the right side, you can see the R$18.3 million impact on personnel expenses composed of R$9.9 million in principal amount and R$8.4 million in payroll taxes. Since the R$18.3 million expense is tax deductible, the net impact on first quarter 2015 was R$12.1 million.

An important aspect of the accounting treatment of stock grants is the fact that the calculation of the 60.3% in payroll taxes is based on the share price on the date that the share is transferred to the beneficiary, while the principal amount is calculated considering the share price on the grant date. As a consequence, the price – the market price of BVMF3, our share, brings volatility to the portion of personnel expenses connected to the payroll taxes on the stock grant. So, every quarter, we will update the payroll tax figure to the most recent price available on the last date of the quarter.

Finally, in first quarter 2015, we also recognized a R$25 million non-recurring expense related to the payroll taxes from the transition of the stock option to the stock grant. This is a one-off and this was announced in the Notice to the Market related on February 4, 2015. This expense is also tax deductible.

So, I just wanted to take a moment to point that out, and I'll be happy – would be happy to take questions on this during the Q&A. We want to make sure that this is on everybody's mind as we go forward because this is a new way we're going to account for such incentive plans.

On page nine, we would also like to point to another accounting change that will from now on impact our numbers. Law 12,973 of 2014 has altered the accounting treatment of our investment in CME Group and it is important for the investor community to take note of this. The first impact is related with the treatment of dividends received from CME and withholding taxes on those dividends.

These taxes on dividends received from CME will no longer be recognized as an expense for the company as it was before. The dividends received from CME will be added to the company's tax base calculation in the tax books only, and the overseas withholding taxes on dividends will offset the increase in the company's tax base in the tax book as well.

The second impact refers to the changes in equity in income of investees and income tax line. Equity in income of investees will be calculated now based on CME's Group net income after taxes instead of earnings before taxes, and corporate taxes paid overseas by CME will no longer impact our equity income or income tax lines. I'll be happy to take questions on this as well over the Q&A period.

Moving forward to the financial highlights, we show our financial position on page 10. We always like to highlight our financial robustness. The chart on the left shows the cash and financial positions, which is an important part of the business as being a credible counterpart in the financial market. Cash and financial investments reached R$4.3 billion in the quarter, including BVMF's own cash as well as cash held on behalf of third parties which deposit cash collateral with us.

Continuing with the company's practice of consistently returning capital to shareholders, our board once again approved for this quarter an 80% payout ratio and dividends, representing R$223.6 million. We also repurchased 6.8 million shares, which represents R$63.7 million in share buyback. The CapEx executed for the quarter reached R$42.4 million, and for the year, we expect to invest between R$200 million and R$230 million in CapEx and then in 2016 between R$165 million and R$195 million.

Slide 11, we take a moment to look at OTC iBalcão initiative, and the main developments made in that project. We are moving forward with the improvements in the platform with a specialized team fully dedicated to this. Today, iBalcão delivered registration of a full range of derivative products with or without CCP and also bank funding instruments.

Our goal is to focus on operational efficiency, flexibility, competitive prices and low switching costs to meet our customer's needs. We are extremely committed to growing in this area. While we recognize the high quality of our competitor, we feel very confident that we will gradually gain the trust and business of our clients and provide to our company an attractive new revenue line.

Moving to the last page, which is slide 10 (sic) [12] (15:05), on our strategic developments, just some recent updates. To conclude, I want to emphasize that we maintained our focus on building a world-class IT and operations infrastructure and at the same time, seeking to our revenues through the continuous development of product and markets. We are working on the development of the second phase of our new integrated Clearinghouse and all the effort and investments we put in the PUMA Trading System are bearing fruits, since we have witnessed an uninterrupted operation of this system for 669 days.

Regarding products and markets development, we are concentrating efforts in increasing liquidity for listed products. With this goal, we recently announced the expansion of our market maker program in the derivatives market, and we are working to attract new participants to our securities lending platform, mainly local pension funds and foreign investors.

We also announced yesterday changes to our inflation-linked future contracts that will be implemented in June, in an effort to relaunch this product family in a way that more adequately meets the needs of market participants. The company has also been making an effort to drive revenue growth by implementing adjustments to our pricing and rebates. These have been gradually announced and put in place in the last few months.

Another important announcement made this week was the partnership with S&P Dow Jones Indices to develop new equity and fixed income indices for the Brazilian market. We're truly honored by having a partner of such quality and reputation, and by having more indices, we expect to expand our ability to create new listed products such as ATF (16:41) options and future contracts.

Last but not least, we did an equity investment of R$43.6 million to acquire 8.3% of Bolsa de Comercio de Santiago in line with our strategy of seeking expansion opportunities connected to our core business and explore partnerships with that exchange.

Thank you very much for your time and we are ready for some questions.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-session answer session. Our first question comes from Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning everyone. I have two questions if I may. The first one is, can you give us a guidance on how all of these changes on taxes will affect your effective tax rate?

Second question is about iBalcão. How is this product different or better relative to your main competitor? What benefits in terms of quality or service or pricing are you offering in order to win business here? I'm sure that before you undertook this initiative, you had in mind target market share that you wanted to achieve in order to make the investment profitable. If you can share with us what that target market share is, that will be great. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Jorge, I'll have Eduardo Guardia, my colleague here start with the second question and then I'll go back to your first, okay?

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay.

A - Eduardo Refinetti Guardia {BIO 2126991 <GO>}

Hello, Jorge. Good morning to everyone (18:31). So, let me start with the second question. First, Jorge, we will not give guidance on expected revenue or market share with iBalcão. We never give guidance to any product, so we will continue to do the same if related to iBalcão. You know it's not easy to give this type of guidance. So although I can assure you that we have internally objectives, and these objectives are part of our internal targets for the year, for myself and for my colleagues.

Going to your first question about the iBalcão. I think we have to split this business in two parts to give you a better answer. When we talk about derivatives, OTC derivatives, I think we have very important competitive advantage, particularly when we talk about OTC derivatives with CCP. Now that we have the integrated clearinghouse, this is the biggest competitive advantage we have. So if you have registered OTC derivatives with us, investors can match (19:38) their positions with listed products. So, this is a huge differential that we will have related to our competitors. Even if they have a CCP in the future. We know that they don't have a CCP as of today.

Related to the derivatives without CCP, what we are doing, as Daniel said, was to – or we are migrating our OTC product, with and without CCP, to a new platform, which is much more modern and much more flexible. And I think this is also an important aspect to highlight.

I have to admit and I have to say that we don't have yet all the products we need when we talk about OTC derivatives. So we are working on that as well to make sure that as soon as possible, we will have all the products that are necessary to offer to our clients to be really competitive on the OTC – on the OTC derivatives space. So, that's related to the OTC.

When we go to securities registration, then of course, it's much more difficult to differentiate the service. So, what we are trying to do is first to reduce the migration cost. Because what we are trying to do is to have some type of tailor-made solution for the most important clients to make sure that the migration process is as easy as possible. And we have already had a very successful experience with one big client. We are working with others, and we are also offering a fee structure that is, I think, much more simple, not only cheaper, but it's much easier to understand and to predict, which is very important when you talk about securities registration.

You know that now Central Bank requires all taxes (21:47) above R$5,000 to have the identification of the final beneficial owner. We already have this feature in our platform for any event – even for smaller amounts. So all the registration in our platforms has already (22:06) the identification of the final beneficial owner.

On the securities registration, we are also trying to differentiate our sales offering products that I think will be much more difficult for our competitors to offer. And one good example of that is the structured note with physical delivery. So this is one of the products that we released this quarter, and I think will be one interesting product that will attract the major players to our platform, to have access to structured notes with physical delivery, they will have to be registered with us, once they are registered with us, using our platform, they can test all the other products. And now I'm talking about the structured note.

So that's what we are trying to do. We are trying to leverage on the competitive advantage that we have at BM&FBOVESPA and also by making sure that our clients understand that we have a dedicated team, not only the product team, but our IT team, operational team that are working together to provide a good service to clients. So this is one other differential that we can offer. We have a very good quality service when you talk about listed products, and we are definitely working hard to replicate the same quality to our OTC products. So that's what we're going – trying to do, as Daniel said, we know it's not easy, but we are moving in accordance with our expectation and we are pretty confident that we will, over time, show very important results to our shareholders.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Just going back to your first question on effective tax rate. So the change in CME accounting treatment, Jorge, has no material effect, because basically, we were showing a gross retained earnings, and then we were deducting the tax from our tax line and now we are just going to show net retained earnings in the retained earnings lines after taxes.

So there is no significant change in that. Another change that you should take note, however, is the fact that our – the principal of our stock grant program expense is now tax deductible. So not only – and that's a different basis than we used to have in the past. In the past, we had an expense in our line, which was stock options, which was not tax deductible. And now we have stock grants, which is tax deductible plus of course the payroll taxes, which is also tax deductible. So that reduces a little bit our tax base. It's not a big number and we can get into more details offline, and remember most of it is non-cash, because we still have the goodwill amortization.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thanks for the detailed explanation. So just – I'm sorry to go back to the issue about effective tax rates. So the effective tax rate in the first quarter was 31%, this is sort of like a big (25:29) change relative to what you had had in previous years, which was around 35%. Should we think about 31% as the new level, or would you mind giving us some better guidance, given all of these moving parts that are affecting your effective tax rate?

A - Rogério de Araújo Santana

Hi, Jorge. It's Rogério. In this quarter, we also had the non-recurring expenses that is connected to stock option, that's R$25 million from the transition we announced in early February this year. So, answering your question, we should have an effective tax rate that, as Daniel said, most of it is not cash, but should be slightly above 31%.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you.

A - Rogério de Araújo Santana

This first quarter was lower than it should be in the recurring level.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you.

Operator

Our next question comes from Francisco Kops with Safra.

Q - Francisco Kops {BIO 17215088 <GO>}

Hello, everyone. Two questions as well. First, regarding expenses. You guys presented the adjusted expenses growing just 1.6%, which is well below inflation, and if we analyze this growth, I mean we should go to the lower part of your guidance. My question is, there is anything we can, okay, assume that's non-recurring here? And I saw that basically marketing and communication expenses dropped year-over-year. Do you think guys, you (27:05) should be able to keep like that? I mean this should be recurring? Then I do my second questions later.

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. Thank you, Kops. I think that the non-recurring item in our adjusted expenses is a R$6.8 million provision regarding labor expenses or personnel expenses in this quarter, we should not expect to see that in the future again. And we are maintaining our guidance at this point in the cycle, we are making efforts to manage expenses in the best way possible and again under an inflationary scenario. So the fact that you note that discretionary expenses are the ones that are showing the largest contraction is I think a result of those efforts.

Q - Francisco Kops {BIO 17215088 <GO>}

Okay. That makes sense. My second question is a little bit more generic. It's more about focus and management time. We saw that in 2014, the clearinghouse integration project took a lot of your efforts in terms of time and focus, what we should think about 2015? If it could be the same? I mean, the clearinghouse is still the main project. How we should think the – even the iBalcão or even the new movement you guys are doing to expansion to Latin America, you guys just acquire somewhat of a (28:42) share in the Chile stock exchange. So how we can think about management time and focus in 2015 compared to 2014?

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. Thank you. And I'll have my friends Eduardo Guardia and Luís Furtado, our head of IT, who's also here with me, help me in the answer. But before I give them the mic, I think it's very important that every time that we speak about updates on our strategic developments, we really speak about two pillars. One is building a world-class IT and operations infrastructure. So building the systems, building – revamping all of our facilities and IT infrastructure and operation to be able to support larger growth, but not doing only that. And the second leg of our strategic focus and initiative and management time and priority is obviously on developing products, markets and seeking to diversify our revenues. And these have equal importance in our strategic thinking as well as management dedication. So, I'll have my colleagues get in a little bit more details of what we are doing on both fronts.

A - Eduardo Refinetti Guardia {BIO 2126991 <GO>}

Francisco, with respect to Latin America, I don't think it will have any meaningful impact on the management folks, because we have one international director that is really dedicated to this issue, which is Marcio Veronese, among other things that Marcio is responsible for. Of course, I do have to dedicate part of my time to this strategy, but that's something that – we have two banks working with us, helping us to find opportunity in Latin America. So, that's not something that I would say that it's time consuming or that will affect our allocation time during 2015.

Going forward, though, I would like to spend more time discussing opportunities in Latin America, that's something that we will start to do once we make this acquisition and now I'll start to do that with Chile. I'll ask Luis to talk about the clearinghouse integration.

A - Luís Otávio Saliba Furtado

Okay. Just a few remarks on management attention regarding this big project we've been handling over the last two (31:06) years that's going to take us into 2016 to get them completed. Right now, the major effort on the clearing consolidation is what we call the building of the version two, which is getting the new clearinghouse ready for the equities migration. And it does take some effort and some management attention.

Next year is going to be the migration, so it will take not only effort from us, but also from the participants, and that potentially can take some additional focus from management. But I think it's important to emphasize that in 2013, for instance, we were tackling all the big projects together. We were tackling PUMA, we were tackling the new data center, we were tackling the new clearinghouse as well as the iBalcão. So, we can say that the bulk of the big transformation is over and therefore, we can concentrate on new opportunities that Eduardo mentioned.

And also, we have now a much more experienced organization on how to handle these big projects. The fact that we have successfully migrate PUMA phase 1, PUMA phase 2, clearinghouse consolidation phase 1, all the deliverables on the iBalcão and data center makes us much more stronger at this point to handle this last phase of the clearing consolidation project.

Q - Francisco Kops {BIO 17215088 <GO>}

Well, guys, thank you, thank you so much, I think things got cleared (32:52). Just because I note that some project like iBalcão, they have developed really fast in 2015 compared to the past. And even the expansion to Latin America happens in 2015, so that's why I was trying to figure out if it's really that you guys really have right now some time that you didn't have in the past, or no, it's just something that you guys maybe learned how to manage your time better, or it's another stage of the clearinghouse integration. But I think I got the answer. Thank you.

Operator

Our next question comes from Alexandre Spada with Itaú BBA.

Q - Alexandre Spada {BIO 16687974 <GO>}

Hi, hello, good morning, everyone. Two questions from my side. First one is, can you provide an update on the developments of the assessment of infraction that you received earlier this year on the goodwill amortized in 2010 and 2011? When do you expect the first judgment to take place? And also, can you discuss with us what are the latest news on the other dispute regarding goodwill amortization? And then I will come back with a second subject. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Spada, thank you so much. We filed about 10 days ago, our rebuttal to the assessment that we received from the revenue service regarding the 2010 and 2011. This was done at the first level of appeal, which is at the sort of regional chapter of the revenue service. We did I think a very thorough work with our lawyers to challenge all the points that were brought against us. And again, we feel good that the allegations about improper use of the tax benefit afforded by the law are very inconsistent. So, unfortunately, we don't have a calendar for that, a timetable. So we don't know when we're going to receive news from, again, this first level of administrative dispute.

On the previous case, the 2008-2009 period, as you know, we unfortunately were not successful in our challenge that we made to the first level chamber of the CARF, of the Appeals Board, and therefore, we are now reviewing that case and will likely appeal to the higher – to the superior board of the Appeals Board. And that should take place in the near term. Unfortunately, as you are probably following, the deliberations in the Appeals Board of the revenue service are currently not moving at the regular speed due to some restructuring that the Ministry of Finance is working under in that body. So again, I'm not able, regrettably, to give you any more clarity about the timetables on this.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. So just to make sure, your appeal will happen soon, but you're not sure about when that will be discussed at the board.

A - Daniel Sonder {BIO 18250247 <GO>}

Correct, correct. Thank you.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. And now...

A - Eduardo Refinetti Guardia {BIO 2126991 <GO>}

Alexandre, this one is just to – (36:46) last time, when we received the tax claim in 2010, it took one year to get the result of this discussion at the regional office of the revenue service, but it really takes time.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Thanks, Guardia. Thanks, Sonder. Second question, you've executed relatively small portion of the current share buyback program in the first quarter of 2015, 6.8 million shares, if I'm not wrong, and the stock is now more expensive than it was earlier in the year. So the question is, can we expect the current share buyback program to be fully executed in 2015 or would it be more reasonable to expect it to slow down at this point, if the stock remains above the R$12 per share level?

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. So the way that we think about the stock repurchase program is as a byproduct of our desire to deliver back to shareholders the cash that we generate in the company over the course of the year, right. So, what we try to indicate by the size is, with some room for exceeding expectations and without any firm commitment, a very sort of broad interval of where we think with, again, a lot of flexibility on both sides, we would need to have the share program approved at the beginning of the year to be able to execute on the strategy that I just laid out, which is to, in addition to dividends, return essentially most of the cash generated by the company to you.

Having said that, what we do in the first quarter is that we have to be a little bit more conservative on cash retention, because in the months of April and then again in the month of May, we have large dividend payments – cash payments. So we have to look at the cash generated in the company, which is pretty much even during the year in a normal year or spread out evenly during the different quarters, and use less of that cash in the first quarter because we have large payments coming due in April and May. So that is essentially the reason why we purchased less or a smaller fraction of the repurchase program during the first quarter and I don't think that should be an indication of how much or how little we will execute over the course of the year.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay, so net-net, the idea is to return to shareholders most of the cash flow generated in the year through this combination, and that could mean that this buyback could accelerate going forward.

A - Daniel Sonder {BIO 18250247 <GO>}

Look, that's what the company has done in the previous years, and it has, in the first quarter, that was our recommendation to our board. They have obviously the flexibility of every quarter of reviewing that position and perhaps directing us to distribute more dividends or retain more cash in the company. But if you look back at the previous years, successive boards have followed successive recommendations from management exactly in the direction that you have just stated.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay, that's very clear. Thank you.

Operator

Our next question comes from Gustavo Lôbo with BTG Pactual.

Q - Gustavo Lôbo

Hi, everyone. I have a couple of questions. Both are related to FX. First, I'd like to understand the exposure that you have in terms of adjusted operating expenses to FX. Because looking at your figure for the first quarter, you're growing adjusted operating expenses exactly what the midpoint of your budget implies for the full year 2015. But – well, there was a huge BRL deprecation in the meantime that shouldn't persist for the following quarter. So if you don't have that same negative impact from FX in your operating expenses, you could actually deliver a figure below what your budget implies.

And my second question is also related to FX. Your budget for CapEx and OpEx was unveiled in December when the dollar was at R$2.7, something like that. And there was a depreciation in the meantime. So how comfortable you are with your budget? And should we see a potential revision upwards of that, or you are adjusting things somewhere else so that the range will remain the same, or are you hedged in any way? So if you could just talk a little bit about that.

A - Daniel Sonder {BIO 18250247 <GO>}

Great, Lôbo. Thank you for the question. And I think at your last sentence, you kind of wrapped it all up, but let me state it very clearly. So regarding guidance, at this point, we don't think it's necessary to revise either the OpEx guidance nor the CapEx guidance for the year, okay.

One of the reasons for that is that we have applied for the past two years hedging for expenses using dollars that we generate in our business. So what we do is at the beginning of the year or as close as we can possibly execute that, and very near to the time that we release the budget, we use dollars to effectively hedge out the exposure to FX that we can firmly confirm to our auditors that we know will take place during the year.

So all the contractual obligations that we can credibly foresee for the future of the year, we can basically assign a particular dollar amount that we already hold to that obligation. And therefore, as an expense item in our income statement, FX variations will not impact those obligations. So we do that not to all of our expenses, because just to give you a very simple example, travel expense in – a travel expense in November, I don't know for sure that I will execute that in January. So I cannot – from the accounting – strictly accounting point of view, I cannot use dollars that I own in January to hedge for a travel expense that is budgeted for November, because I'm not certain about that.

But for a lot of our contracts, with the suppliers of either in the technology line or in the CapEx line or some other obligation, we can effectively do that, which has been I think to our benefit this year. And actually, we intend to do this every year, because we don't want to take a view on where the dollar is going to go from a budget standpoint. What we want to do is I think what you hinted at, which is be able to release a budget at a certain point in the year, which is late in the year, and then know that there will be as little variation as possible in that budget throughout the following fiscal period. So, that's what we do.

There is, however, remaining small exposed position due to things that we are not for sure, but not enough to lead us to have to revise our budget right now. And the reason for that is that we have made efforts to make savings in other items so that we can absorb the unhedged portion of our OpEx budget. Is that clear?

Q - Gustavo Lôbo

Perfect, very clear. Thank you.

Operator

Our next question comes from Domingos Falavina with JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Hi, good morning all. Rogério, Sonder and team, thank you for taking the call. Actually, a couple of questions too. The first one is, again, I guess regarding the CME stake. My understanding is that board members went in a road show just ahead of the elections and most of the feedback of investors we got back were that it seems most were in favor of a total or at least partial divestment from CME, and still we don't see that going forward. I'm just wondering why hasn't this and if you do find a – I understand the 2% are necessary for the board sitting in the CME, but why the decision to keep the full 5%?

A - Daniel Sonder {BIO 18250247 <GO>}

Okay, Domingos, thank you for the question. I think that the position of the company has not changed since we met with investors. It is a very strategic relationship for us with innumerous benefits, most concrete one that was accomplished was of course the revamp of our trading system. But it is indeed something that has value to us, the strategic discussions that we can have about products, about opportunities that we look together, about knowhow and best practices of being associated with the largest exchange or one of the largest exchange groups in the world. So we see that as something very important, and we see that the relationship does become much tighter and important because of this cross-share ownership in the company – of each company in each other.

Having said that, of course, it is the duty of the board to frequently review that situation in light of either strategic or economic financial changes in the landscape, and in light of the contractual obligations, which do not include among them, which is properly stated, the obligation to keep 5%. So, we continue to review that situation. At this point obviously, there has not been any change in our decision or in our views. So they remain the same as they were, as we were having these discussions with some of you and with investors.

Q - Domingos Falavina {BIO 16313407 <GO>}

Well, perfect. Great here. (48:35). My second question actually also touches iBalcão, but it's a more actually insight from you guys that we would like to have. Like on paper, it does look like iBalcão is a very compelling initiative. I mean based on (48:50) you have advantages in mapping (48:53) exposure from the banking side. Your pricing seems a little bit hard to compare, but since in some cases a bit cheaper, yet when we look at the market share, most of the products, most would consider the initiatives so far to have been unsuccessful. So my question is to what do you attribute the fact that the BM&F is still struggling in getting at least a 10% market share or 20% market share in most of the iBalcão's products?

A - Eduardo Refinetti Guardia {BIO 2126991 <GO>}

Domingo, it's Eduardo speaking. First, I would not agree with you when you say it's not a successful strategy because we are still implementing the strategy and it takes time. And we, as I said clearly, we don't have yet all the products we need and we want to have to be more competitive. We have this year made some important steps related to securities registration with the new products. Now we have to and we are working with banks to try to bring them to our platform.

So we never said this would happen in the short term. So it requires a lot of hard work and we are still working on that. If you look this year, derivatives with the OTC derivates with CCP, we had a very important increase in volumes. We had a good performance. I said and I still and I do believe that there will be, over time, more demand for OTC derivatives with CCP, because of all the restrictions coming from Basel III, and probably we'll start to see this soon. So we will continue to work hard on that. We know that we still have to deliver products that we don't have today. We are working on that. We will work on that. So I cannot agree with you when you say it's not successful because we are still implementing and this takes time so we will continue to work hard on that.

Q - Domingos Falavina {BIO 16313407 <GO>}

Okay. Understood. So you believe that basically your market share is a result of the short amount of time that the product has been available.

A - Eduardo Refinetti Guardia {BIO 2126991 <GO>}

I think so. I think when you look to securities registration, we releases important product that we need to release in February this year, talking about the financial bills. OTC, time deposit with new functionalities, the COE with physical delivery. So it takes – sometimes, when you go to a bank to show your new platform for them to adjust their system to start operating with you.

And it's very difficult to do that when you go to the bank and you don't have all the products they need. So that's – we worked last year on the securities registration platform. This year, we are working on the migration of the OTC products, the OTC derivatives. And as I said in the beginning, there are other important products like the swap with cash flow, flexible options, with and without CCP that we still have to deliver. So that's what we are doing now. So it's – when I look to the targets to the objectives that we have internally I think we are moving in the right direction.

Q - Domingos Falavina {BIO 16313407 <GO>}

Perfect. No, very clear. Just a last question. BM&F seems to have been very, very good at keeping cost growth in the last two years or three years from low single digits to even sometimes below nominal growth. So basically decreasing even in some years. We just saw the Mega Bolsa. I think just got an announcement Mega Bolsa was turned off this month. Can we expect some kind of head count release (52:48) or cost decrease now as a result of Mega Bolsa being turned off or how can you think about that?

A - Luís Otávio Saliba Furtado

Okay. Just a clarification on that. It was not Mega Bolsa the trading platform, that was discontinued in 2013 when we migrate the last stage of PUMA. It was Estação Mega Bolsa, which is a trading screen that we provide. It's being replaced by Estação PUMA. It's just the front end for the traders.

Q - Domingos Falavina {BIO 16313407 <GO>}

So not a (53:17) cost savings there?

A - Luís Otávio Saliba Furtado

Well, no. Some savings. I mean we discontinued several service as a result of that, but not really material.

Q - Domingos Falavina {BIO 16313407 <GO>}

Understood. Thank you.

Operator

Our next question comes from Eduardo Nishio with Brasil Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you. Thank you for taking my question. I have just one question on the clearinghouse process. Typically, systems development tend to delay. We are approaching the middle of the year. So my question is how confident you are that the IT development of the equity phase will terminate on 4Q 2015? And if you can give us a little bit more color where you are and what the process that need to be finished to meet that schedule. Thank you.

A - Luís Otávio Saliba Furtado

I would say at this point that we are pretty confident that we will make the year-end regarding development. In fact the actual target is to start what we call certification with market participants by the end of the year. Right now, we are on track. But just to give you some more information on that. I mean, the second phase of the clearing authorization is comprised of 19 projects and 12 fronts (54:41) of work. We're touching 101 different systems. So it's a rather complex initiative, but regarding the execution of our plan, we are on track at this point.

Q - Eduardo Nishio {BIO 15333200 <GO>}

All right. Thank you so much.

Operator

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

A - Daniel Sonder {BIO 18250247 <GO>}

Everyone, thank you very much. We appreciate your time, your attention, and your investment in our company as well. So we remain here, the entire finance and IR teams, available if you have further questions for us.

Operator

That does conclude the BM&FBOVESPA audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.