Cross-Border Listings Guide - Sao Paulo–B3 (formerly BM&FBovespa)

Overview of exchange

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# Overview of exchange

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The São Paulo Stock, Commodities and Futures Exchange (known as B3 S.A. - Brasil, Bolsa, Balcão) currently has several different trading market segments: the traditional stock exchange and over-the-counter markets, and the special trading segments "Level 1," "Level 2" and "New Market" (*Novo Mercado*), "Bovespa Mais" and "Bovespa Mais Level 2", which allow the trading of securities of listed companies adopting a special level of corporate governance. The "New Market" (*Novo Mercado*), the most prestigious segment, with the strictest governance requirements, is the segment used in the vast majority of IPOs in Brazil. The last two segments ("Bovespa Mais" and "Bovespa Mais Level 2") are designed for entry-level and small cap companies and allow for pre-IPO trading.

A company that is listed on any of these special trading segments must execute an agreement with B3, under which the company agrees to observe all corporate governance rules applicable to that market level. The corporate governance requirements increase from the traditional market to Level 1, from Level 1 to Level 2 and from Level 2 to the New Market, which has the strictest requirements, including that the listed corporation may only issue, and register for, trade common shares and that it must grant tag-along rights to all minority shareholders in the event of a sale of control. The listing of securities in any of these special trading segments is restricted to Brazilian corporations.

The traditional markets, on the other hand, represent the segment of the stock and over-the-counter markets where no special corporate governance practices are required to be observed in addition to those already set forth in the applicable laws and regulations issued by the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*, commonly known as the CVM). Although domestic companies may opt between the traditional market or any of the special listing segments (with New Market being the most commonly used market for new listings), securities issued by foreign companies may only be listed in the traditional stock exchange or over-the-counter markets, through either a sponsored or non-sponsored depositary receipt program (as described in section 2 below).

In December 2023, the aggregate market capitalization of listed securities on the B3 was approximately BRL 4.80 trillion (approximately US$988.80 billion), and BRL 4.41 billion (approximately US$908.46 million) in December 2022.

*Historical development*

Brazil's great economic growth of the 1970s forced the ripening and development of its financial system. Since that time, with the exception of exchange controls, the goals of legislators and governmental authorities have been similar to those adopted in most developed countries. In summary, the legal framework conceived and adopted for the macroeconomic monetary policies, most notably for securities, was based on:

Inspection, surveillance and control over the entities that are members of the financial markets.

Providing investors with the greatest level of information and transparency possible.

Ensuring that securities analysts and trading professionals have technical training and proper knowledge of the Brazilian laws, regulations and market practice.

Implementing exchange controls and mechanisms to avoid the exiting of Brazilian internal reserves to other jurisdictions.

Nonetheless, until approximately 15 to 20 years ago, the Brazilian securities market was considered to have limited potential, as its volume of business was low and derived mainly from a few investment funds and government-controlled entities. However, this situation has been gradually changing, as a result of important actions by the securities market regulators, not only through changes in the laws and rules of the market, but also through marketing campaigns to instruct potential investors on how and why to invest in Brazilian listed companies.

Late in 2008, the main stock exchange market in Brazil, the Stock Exchange Market of São Paulo (*Bolsa de Valores de São Paulo*, or *BOVESPA*) was merged with the Brazilian Commodities & Futures Exchange (*Bolsa de Mercadorias & Futuros*, or *BM&F*). This merger created the main stock and commodities exchange market in Brazil, *BM&FBOVESPA S.A.—Bolsa de Valores, Mercadorias e Futuros* (Securities, Commodities and Futures Exchange). Together, the merged companies have formed one of the largest exchanges in the world in terms of market value and the leading exchange in Latin America.

As a consequence of the regulatory changes that occurred in the past 25 years, the type of corporations with securities listed in the Brazilian market has significantly changed. From family-controlled corporations with a defined controlled structure, large multinationals with diluted capital and pulverized shareholding structure have appeared and are cited as a possible trend for the Brazilian securities market.

Nonetheless, although the Brazilian securities market was not immune to the economic downturn and depreciation of the Brazilian real as against the US dollar, the stock market has preserved a strong position showing a continual increase of its capitalization and, more recently, companies seeking to perform IPOs.

In March 2017, BM&FBovespa and CETIP (the main clearing chamber and fixed income over-the-counter market in Brazil) combined their businesses to form B3 - Brasil, Bolsa, Balcão, integrating the exchange and clearing business of both entities, which is, currently, the largest stock exchange in Latin America, in terms of market capitalization and average trade volume (20th in the world).

*Listed companies*

As of December 2023, there were approximately 436 companies, with securities listed for trading on B3 (stock and over-the-counter markets).

B3 does not specialize in, or encourage listings by, any particular types of company. However, the exchange encourages any domestic company that meets its listing requirements to list in the special corporate governance segments instead of the traditional market.

B3 does not make any specific distinction between primary and secondary listings.

The CVM is responsible for the prior registration of issuers and securities offerings in the Brazilian securities market.

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