By Jason Mitchell

BM&FBovespa, Brazil's main stock exchange, has signed a commercial agreement with the Santiago Stock Exchange, Chile's main bourse, enabling order routing in equities and derivatives between the two markets by the second quarter next year.

Currently, Brazilian or Chilean financial institutions must be registered in and have a brokerage in each other's countries to trade in stocks, stock options or derivatives in the other country. The new plans will simplify this greatly and mean that market participants in Chile and Brazil will be able to directly route orders for securities listed on the other's exchange. Under the arrangements, they will also be able to disseminate data from each other's markets.

Clearing and settlement of orders will be carried out according to the rules of the local market in which the stock or derivative is listed.

BovespaBM&F is also in talks with the Bolsa Mexicana de Valores (BMV), the Mexican stock exchange, and with the Latin American Integrated Market (Mila), the new index made up of the biggest stocks listed in Colombia, Peru and Chile, about similar order routing agreements.

"Our growth has been organic and we are exploring as many opportunities as we can in Brazil," says Eduardo Guardia, the chief financial officer and head of investor relations at BM&FBovespa. "We have already entered in to strategic partnerships in the United States and we are considering other ones in Latin America and Asia."

The agreement with Chile focuses mainly on the order routing of equities but also expands to derivatives, as BM&FBovespa would like to help Chile develop its derivatives market (some 90% of derivatives trading in Latin American currently takes place on the Brazilian exchange).
The Brazilian bourse is also pursuing a dual listing arrangement with the Hong Kong Stock Exchange. This would benefit from the growing links

between China/Hong Kong and Brazil and from the difference in time zones.

BM&FBovespa also plans to introduce high frequency trading in equities next year, something that the Mexican stock exchange has already carried out. High frequency trading makes up more than 50% of all trades in the US but it is not expected to reach more than 20% of all trades in Brazil.

Otavio Vieira, chief investment officer at Safdie Asset Management, a Brazilian wealth manager, says: “I think the initiatives by the Bovespa just follow the global trend of integration by exchanges around the world. Hign-net-worth investors are no longer local investors, they are global ones and they want exposure to all the key bourses in the world.”

Victor Rodriguez, the chief executive officer of LatAm Alternatives, a hedge fund manager, and director of the Latin American chapter of the Hedge Fund Association, says: “The Bovespa index is down 16% since its high in November but Moody’s has just upgraded Brazil again. The stock market is currently suffering because of events in Europe. I think it will pick up later in the year as investors’ sentiment improves and because of all these new initiatives and the Bovespa’s very strong management.”

In April, the Mexican Derivatives Exchange and CME Group, the world’s leading derivatives market based Chicago, also entered into an order routing agreement. CME Group and BM&FBovespa already own 5% of each other.