August 22, 2019

033/2019-VOP

CIRCULAR LETTER

To: B3's Market Participants and Other Stakeholders

Re: **Investor Group Open Position Concentration Limits in BM&FBOVESPA Clearinghouse**

CVM Instruction 283, dated July 10, 1998, requires the setting of limits for open positions and contracts in the futures market.

In accordance with CVM Instruction 283/1998, Chapter 5 of BM&FBOVESPA Clearinghouse's Risk Management Manual establishes the criteria used by the Clearinghouse to set open position concentration limits.

Open position concentration limits set for derivatives and securities lending agreements apply to:

- Positions held by the same investor and registered under the responsibility of a specific full trading participant (FTP) or settlement participant (SP).
- Positions held by the same investor and registered under the responsibility of more than one FTP or SP.
- Aggregated positions held by different investors belonging to the same "investor group", defined in accordance with criteria established by the Clearinghouse, and registered under the responsibility of a specific FTP or SP.
- Aggregated positions held by different investors belonging to the same "investor group", defined in accordance with criteria established by the Clearinghouse, and registered under the responsibility of more than one FTP or SP.
- Aggregated positions held by different investors and registered under the responsibility of the same FTP or SL.

Two limits are set for each derivative or securities lending agreement:

- Limit 1: exceeding the limit entails an additional margin requirement;
- Limit 2: exceeding the limit entails mandatory reductions to the excess position within a timeframe established by the Clearinghouse. The Clearinghouse may also determine: (i) additional margin requirements; and/or (ii) fines.

The Clearinghouse may analyze requests from participants to waive compliance with open position concentration limits if the situation is specified in the Risk Management Manual.

In compliance with article 5 of CVM Instruction 283/1998, the Clearinghouse monitors different types of "investor groups". In assessing compliance with open position concentration limits, the Clearinghouse deems to belong to the same group investors who (i) act in concert and/or (ii) have the same decision-making center for trading purposes and/or (iii) represent the same interests defined at the sole discretion of the Clearinghouse or CVM.

For specific types of "investor group", compliance with open position concentration limits is controlled automatically. For other types, monitoring of compliance entails an analysis of information supplied to the Clearinghouse by FTPs and SPs, and data otherwise obtained by the Clearinghouse, on such aspects as the degree of synchrony in the timing of trades executed by the investors involved, and their trading history. At the end of the process, the Clearinghouse decides whether the "investor group" in question has failed to comply with the limit set.

The table below shows the different types of "investor groups" used by the Clearinghouse and whether compliance with limits is controlled automatically or via analysis by the Clearinghouse.

Type of "investor group"	Control of compliance with limits
Investors and their exclusive investment vehicles.	Automatic
Prudential conglomerates (defined by Central Bank of Brazil), locally or foreign owned, including executive officers and board members with their respective investment vehicles.	Automatic
Holders of portfolios managed by the same portfolio manager, with or without exclusivity.	Automatic
Financial conglomerates, locally or foreign owned, i.e. groups of financial entities directly or indirectly linked by equity ownership or effective operational control, domiciled in Brazil or abroad, characterized by common management or a shared brand or trade name, or with contractual and/or administrative ties. Includes prudential conglomerates defined by Central Bank of Brazil.	Analysis by Clearinghouse
Insurance plans and investment vehicles.	Analysis by Clearinghouse
Pension plans and investment vehicles.	Analysis by Clearinghouse
Funds and portfolios administered or managed by Brazilian asset managers.	Analysis by Clearinghouse
Funds and portfolios administered or managed by foreign asset managers.	Analysis by Clearinghouse
Parent companies and their subsidiaries and affiliates, as well as board members, executive officers, controlling shareholders and respective investment vehicles.	Analysis by Clearinghouse
Spouses, life partners and first- and or second-degree relatives (parents, children, in-laws, stepchildren, grandparents, siblings, grandchildren).	Analysis by Clearinghouse
Other groups defined at the discretion of the Clearinghouse.	Analysis by Clearinghouse

Monitoring and enforcement of "investor group" compliance with open position concentration limits by the Clearinghouse is described below.

a) The Clearinghouse monitors "investor group" compliance with open position concentration limits on a daily basis via its Group Management System.
b) If an "investor group" (i) violates an open position concentration limit and (ii) is required to comply automatically, the Clearinghouse requires compliance within two business days.
c) If an "investor group" (i) violates an open position concentration limit and (ii) is not required to comply automatically, the Clearinghouse follows the procedure below to analyze the violation.
d) The Clearinghouse formally questions the investors in the group via the responsible FTP(s) or SP(s) to find out whether the investors (i) act in concert and/or (ii) have the same decision-making center for trading purposes and/or (iii) represent the same interests. The answers must be returned to the Clearinghouse via the responsible FTP(s) or SP(s) within two business days.
e) If the answer is in the affirmative for at least one of subitems (i), (ii) or (iii) to item (d), the Clearinghouse requires compliance by the "investor group" within two business days.
f) If the answer is negative for all of subitems (i), (ii) and (iii) to item (d), and other inputs to the analysis constitute evidence of the contrary according to the Clearinghouse's sole judgment, the Clearinghouse notifies the FTP(s) and SP(s) involved and requires compliance by the "investor group" within two business days.

In exceptional situations and when duly justified, the Clearinghouse may analyze requests from participants to allow more time to comply than in the above procedures.

If an "investor group" violates Limit L1 owing to an additional margin call by the Clearinghouse, the amount of additional margin required from each investor in the group must be proportional to its share of the "investor group's" aggregate position.

Non-compliance with open position concentration limits, except in cases for which the Clearinghouse grants a waiver, is deemed failure to fulfill obligations by the investor or “investor group” and by the participants responsible for the positions, in accordance with the BM&FBOVESPA Clearinghouse Rulebook, Chapter V, Section I, article 126. The measures the Clearinghouse may take in the event of non-compliance with operational limits are set out in Chapter V, Section VI, article 155 of the rulebook.

Further information can be obtained from Risk Management Operations by telephone on +55 11 2565-5031.

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