

April 06, 2023
048/2023-PRE

CIRCULAR LETTER

Listed B3 Participants

Re.: **Recurrence of Operating Balance, Open Position Concentration Limit and Pre-Trade Residual Risk Limit (LiNe) Violations**

As per Circular Letters 064/2021-PRE, dated June 1, 2021, and 008/2022-PRE, dated January 20, 2022, B3 may, among other measures, apply the procedures below for imposing a penalty, as foreseen in the B3 Clearinghouse Rules and in the B3 Clearinghouse Risk Management Manual in cases of recurrence of:

- a) Operating balance violation (non-compliance)
- b) Open position concentration limit violation
- c) Pre-trade residual risk limit (LiNe) violation

In this respect, this Circular Letter changes, only for cases of open position concentration limit violations, the number of violations to be accounted for until the penalty is applied, as described below.

- **Formal communication**

For open position concentration limit violations, the formal communication occurred as of the first violation and will now occur as of the second violation.

- **Written warning**

For open position concentration limit violations, the written warning occurred as of the fourth violation and will now no longer be sent.

- **Fine**

For open position concentration limit violations, the application of a fine occurred as of the fifth violation and will now occur as of the third violation.

- **Cumulative fine**

For open position concentration limit violations, the cumulative fine occurred as of the sixth violation and will now occur as of the fourth violation.

Due to these changes, the evaluation period to account for open position concentration limit violations (12-month variable window) will resume on **April 17, 2023**.

We reiterate that there will be no changes to the procedure in cases of operating balance violations (non-compliance) and pre-trade residual risk limit (LiNe) violations.

To facilitate the full interpretation of the topic, the current set of accounting criteria and the respective measures to be taken, in cases of recurrence established for the treatment of violations and non-compliance are presented in a consolidated manner in the Annex to this Circular Letter.

This Circular Letter revokes and replaces Circular Letters 064/2021-PRE, dated June 1, 2021, and 008/2022-PRE, dated January 20, 2022.

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Annex I to CIRCULAR LETTER 048/2023-PRE

Recurrence of Operating Balance, Open Position Concentration Limit and Pre-Trade Residual Risk Limit (LiNe) Violations

In order to reinforce governance and meet B3's operating limits, as well as bring greater clarity to the provisions contained in Chapters IV and V of the B3 Clearinghouse Rules (articles 98, 100 and 155), and in Chapters IV (item 4.2 and 4.3.9) and V of the B3 Clearinghouse Risk Management Manual and in Circular Letter 033/2019-VOP, dated August 22, 2019, B3 establishes accounting criteria and the respective measures to be taken in cases of recurrence of:

- a) Operating balance violation (non-compliance)**
- b) Open position concentration limit violation**
- c) Pre-trade residual risk limit (LiNe) violation**

The criteria detailed below apply to investors, groups of investors, Full Trading Participants (PNP) and Settlement Participants (PL).

The abovementioned violations or non-compliance will be accounted for according to the criteria and metrics described below.

a) Operating balance violation (non-compliance)

- Accounting criterion: Each operating balance violation (non-compliance) not corrected upon closing of the allocation window and that must be reported to the Central Bank of Brazil on the following business day.

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- Evaluation period: Last 24 months.
- Metrics evaluated: Moving sum of the number of accounted for violations.

b) Open position concentration limit violation

- Accounting criteria
 - i. For investors and groups of investors: Each Limit 2 violation actively occurring and without waiver granted by B3. In the event of a violation caused by a group of investors, the violation will be accounted for all investors holding a position at the time of the violation.
 - ii. For PNP and PL: Each Limit 2 violation actively occurring and without waiver granted by B3, not complied with by an investor/group of investors or by participants acting as PNP/PL of the same investor or group of investors within the timeframe established by B3, and for which an action plan has not been presented and accepted to comply with the limit.

In addition, the metrics will also account for Limit 2 violations actively occurring and without waiver granted by B3, for the PNP/PL aggregation level, namely, positions held by different investors, registered under the responsibility of a given PNP or PL.

- Evaluation period: Last 12 months.
- Metrics evaluated: Moving sum of the number of accounted for violations

c) Pre-trade residual risk limit (LiNe) violation

- Accounting criterion: Each residual risk limit violation for permanent and temporary accounts without prior waiver granted by B3.

The calculation of pre-trade residual risk (LiNe) follows the definition and concepts contained in the technical note "Monitoring limits in LiNe", which is available for consultation at https://www.b3.com.br/en_us/Solutions, Platforms, Risk Management, LINE 5, Specification.

- Evaluation period: Last 12 months.
- Metrics evaluated: Moving sum of the number of accounted for violations

The application of measures according to the criteria established for the recurrence of violations will have a progressive impact on those responsible for the violation and will occur in up to four phases: formal communication, written warning, fine and cumulative fine.

- **Formal communication**

For operating balance violations (non-compliance), the formal communication will occur as of the first violation. For open position limit concentration violations, the formal communication will occur as of the second violation. For pre-trade residual risk limit violations (LiNe), the formal communication will occur as of the third violation.

Up until the business day following identification of the violation that activates the formal communication process, B3 will contact the participant's Market Relations Director via email, informing them of the occurrence of the violation.

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- **Written warning**

For operating balance violations (noncompliance), the warning will occur as of the second violation. For pre-trade residual risk limit violations (LiNe), the warning will occur as of the fourth violation. For open position limit concentration violations, the warning will not be sent.

Up until the day following identification of the violation that activates the warning process, B3 will contact the participant's Market Relations Director, informing them of the occurrence of the violation and the submission of the warning. B3 will send the warning to the Full Trading Participant (PNP)/Settlement Participant (PL) accompanied by a request for an explanation of the cause of the violation, and a request to submit a plan of action to mitigate further violations, in up to 10 business days. In the warning, B3 will inform the recipient that in the case of recurrence other measures may be taken, such as the application of fines.

At a subsequent meeting, B3's CCP Risk Committee will be informed of the violation and the warning sent.

- **Fine**

For operating balance violations (non-compliance) and open position limit concentration violations, the fine will be applied as of the third violation. For pre-trade residual risk limit violations (LiNe), the fine will be applied as of the fifth violation.

The fine to be applied will be defined as the lower value between BRL 5,000.00 (five thousand Brazilian Reals) and the value of the violation multiplied by

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0.10%. The fines will be charged by an entry in the multilateral net balance of the clearing member responsible for the investor/group of investors or PNP/PL.

- **Cumulative fine**

For operating balance violations (non-compliance) and open position limit concentration violations, the cumulative fine will be applied as of the fourth violation. For pre-trade residual risk limit violations (LiNe), the cumulative fine will be applied as of the sixth violation.

The cumulative character of the fine entails the addition of the same fine parameters (values), as explained in the previous item, for each recurrence of the same violation. For example, if there is a fourth operating balance violation (non-compliance), the fine will be determined by the lowest value between BRL 10,000.00 (ten thousand Brazilian Reals) and the value of the violation times 0.20%. Therefore, every new recurrence will have BRL 5,000.00 (five thousand Brazilian Reals) and 0.10% added for calculation of the value of the fine to be applied.

The application of the cumulative fine will be limited to a value of BRL 50,000.00 (fifty thousand Brazilian Reals).

- **Minimum amount**

For violations (non-compliance) that result in a fine or cumulative fine, a minimum amount of BRL 500.00 (five hundred Brazilian Reals) will be charged. If a violation results in a fine or cumulative fine of less than BRL 500.00 (five hundred Brazilian Reals), there will be no charge.

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We reiterate that, in cases where the violation results in a fine or cumulative fine that does not reach the minimum amount established herein, the violation will still be accounted for, for cumulative count purposes, in future violations and the participant will be warned as set forth in this Circular Letter .

The fines will be charged by an entry in the multilateral net balance of the clearing member responsible for the investor/group of investors or PNP/PL.

We reiterate that these new measures will be incorporated into the other prevailing operating procedures, already applied in the case of the aforementioned violations or non-compliance. In this way, the application of these measures does not prejudice the adoption of other measures and actions already described in B3's rules.