



February 25, 2021

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## CIRCULAR LETTER

To: B3's Market Participants – BM&FBOVESPA Segment

Re: **Changes to B3 Access Manual and B3 Clearinghouse's Normative Documents**

New versions of B3 Access Manual, B3 Clearinghouse Rules and B3 Clearinghouse Risk Management Manual will enter into force on **March 1, 2021**.

The changes made to these normative documents relate to B3 Clearinghouse's safeguards structure and are detailed in the Annex to this Circular Letter. The main changes are as follows:

- i.** Conversion of minimum non-operating collateral (MNOC) required from B3's full trading participants (FTPs) and settlement participants (SPs) into contributions to the settlement fund (FLI), with appropriate adjustments relating to:
  - a) The posting of collateral as an access requirement for FTPs and SPs;
  - b) The use of funds from the FLI;
  - c) The sequence of use of collateral;
  - d) The criteria for collateral release.
- ii.** Improvements to the text and content corrections, including changes to reflect B3's cash earmarked for B3 Clearinghouse as one of the components of the safeguard structure.



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- iii. Harmonization of B3 Access Manual with the provisions of Circular Letter 007/2021 PRE, dated January 28, 2021, reflecting the updated amounts of contributions to the FLI.

B3 submitted the conversion of MNOC into FLI contributions to a thirty-day public consultation for participants and other stakeholders to comment and make suggestions, as per External Communication 034/2019-VOP, dated April 2, 2019.

The public consultation report, published by External Communication 063/2019-VOP on June 24, 2019, is available with other information in Portuguese at [www.b3.com.br](http://www.b3.com.br), Regulação, Consulta Pública, Estrutura de salvaguardas.

The new versions of the normative documents will be available from March 1, 2021, at the following locations:

- B3 Access Manual: [www.b3.com.br/en\\_us](http://www.b3.com.br/en_us), Regulation, Regulatory framework, Regulations and manuals, Access BM&FBOVESPA Segment, Access the documents;
- B3 Clearinghouse Rules and B3 Clearinghouse Risk Management Manual: [www.b3.com.br/en\\_us](http://www.b3.com.br/en_us), Regulation, Regulatory framework, Regulations and manuals, Clearing, settlement and risk management, Access the documents, B3 Clearinghouse.

Further clarification can be obtained from Collateral Monitoring by calling +55 11 2565-5032 or emailing [garantias@b3.com.br](mailto:garantias@b3.com.br).

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## Annex to Circular Letter 014/2021-PRE

### Description of Changes

#### I. B3 ACCESS MANUAL

##### Chapter 2 – AUTHORIZED PARTICIPANTS

- **Section 2.1 – FULL TRADING PARTICIPANT, Subsection 2.1.5 Collateral posting:** MNOC replaced by FLI as collateral required from FTPs, and FLI contributions updated in accordance with Circular Letter 007/2021-PRE, dated January 28, 2021.
- **Section 2.3 – CLEARING MEMBER, Subsection 2.3.4 Collateral posting:** FLI contributions updated in accordance with Circular Letter 007/2021-PRE, dated January 28, 2021.
- **Section 2.4 – SETTLEMENT PARTICIPANT, Subsection 2.4.4 Collateral posting:** MNOC replaced by FLI as collateral required from SPs, and FLI contributions updated in accordance with Circular Letter 007/2021-PRE, dated January 28, 2021.

#### II. B3 CLEARINGHOUSE RULES

##### TITLE II: CLEARINGHOUSE OPERATIONS AS CENTRAL COUNTERPARTY

##### Chapter II: Clearinghouse Participants in the Multilateral Netting System

##### Section IV: Full Trading Participant and Section V: Settlement Participant

- **Art. 26 (III) and Art. 30 (III):** inclusion of reference to FLI regarding responsibility of FTPs and SPs for collateral posting.

##### Chapter IV: Risk management

##### Section I: General provisions

- **Art. 84 (III):** inclusion of FTPs and SPs in the list of contributors to FLI.
- **Art. 84 (V):** deletion of reference to “constitution of other collateral” and contributions by participants to liquidity fund (Investment Fund B3 Clearinghouse Liquidity - FILCB), since all contributions are to be made solely to FLI.

#### **Section IV: Settlement fund**

- **Art. 106:** description of uses of FLI adjusted to distinguish between mutualized and non-mutualized coverage of losses.
- **Art. 107:** description of uses of FLI adjusted to include, besides the use by B3 Clearinghouse, the use by non-defaulting clearing member if the FTP or the SP under its responsibility defaults.
- **Art. 108:** inclusion of reference to contributions by FTPs and SPs to FLI.
- **Art. 109:** inclusion of FLI contributions by FTPs and SPs in the FLI use sequence.
- **Art. 111, 112 and 113:** inclusion of FTPs and SPs in procedures to replenish fund, charge back replenishment and modify methodology and parameters for defining required contributions.

#### **Section V: Liquidity fund**

- **Art. 116:** adjustment of text to specify that the shares of the liquidity fund (FILCB) are exclusively used in contributions to FLI and delete reference to MNOC.

#### **Section VII: Sequence of use of collateral**

- **Art. 124:** alterations relating to MNOC-to-FLI conversion, and alterations relating to other topics.

Alterations relating to MNOC-to-FLI conversion in **items V, VII and XI** (as renumbered) consist of inclusion of FLI contributions by FTPs and SPs in sequence for use of safeguard structure components.

Alterations not relating to MNOC-to-FLI conversion consist of drafting improvements and corrections.

**Introduction:** inclusion of B3's own resources exclusively earmarked for the B3 Clearinghouse in initial list of safeguard structure components to be used to cover losses, as already mentioned in last roman numeral item.

**II:** inclusion of text conditioning use of defaulting investor's free collateral posted via other participants to the latter's authorization, so as to align this clause with B3 Clearinghouse Risk Management (Section 1.5 – Sequence of use of Collateral).



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**VI** (as renumbered): inclusion of use of free collateral posted by defaulting FTP or SP linked to non-defaulting clearing members if authorized by the latter. Use of this collateral is based on same concept as use of investor's free collateral mentioned in item II.

**XII** (as renumbered): inclusion of reference to the exclusivity of the allocation of B3's cash earmarked for the clearinghouse.

### III. B3 RISK MANAGEMENT MANUAL

#### Chapter 1 – Safeguard structure

##### ▪ **Section 1.1 – Safeguard structure components**

Adjustment to list of safeguards to reflect MNOC-to-FLI conversion:

- MNOC deleted from list of safeguard structure components (former item vi);
- FTP and SP contributions to FLI included in item vi (formerly vii).

Correction of safeguard structure component list to include B3's cash earmarked exclusively for B3 Clearinghouse. This component is already mentioned in Section 1.5 – Sequence of use of Collateral, and in Art. 124 of B3 Clearinghouse Rules.

- **Section 1.2 – Collateral posted by participants:** deletion of Subsection 1.2.3 – Minimum nonoperating collateral, given its conversion to FLI contribution, and renumbering of subsequent items of Section 1.2.
- **Section 1.3 – Settlement fund (FLI):** inclusion of contributions by FTPs and SPs in list of FLI components, and adjustments to reflect characteristics of FLI with such contributions, especially its use to cover losses due to default.
  - If FTP or SP defaults but the corresponding clearing member does not:  
(a) FLI is not used to mutualize losses, i.e. contributions from non-defaulting participants are not used; (b) clearing member can use contribution from defaulting FTP or SP provided the sequence of use of collateral established in Section 1.5 is observed.



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- If clearing member defaults: FLI is used by B3 Clearinghouse to mutualize losses, and use of contributions from non-defaulters does not follow a sequence based on participant type (i.e. contributions by non-defaulting FTPs, SPs and clearing members are used simultaneously once B3's contribution has been depleted).
- Like the MNOC requirement previously, *N* contributions are required from FTP or SP operating in *N* settlement chains.

**Subsection 1.3.3 – Clearing members' contributions:** deletion of text referring to equality of amounts required from clearing members in same category, since amount required depends not on clearing member's category but on risk assigned to clearing member, as detailed in B3 Access Manual.

- **Section 1.4 – Liquidity risk management, Subsection 1.4.1 – Investment Fund B3 Clearinghouse Liquidity (FILCB):** deletion of reference to MNOC as component of safeguard structure comprising shares in FILCB held by FTPs and SPs. Shares in this fund now become FLI contributions by these participants.

- **Section 1.5 – Sequence of use of collateral**

Adjustments to sequence of use of collateral to cover losses from default, reflecting MNOC-to-FLI conversion:

- Deletion of reference to MNOC;
- Inclusion of FLI contributions by FTPs and SPs.

As in article 124 of B3 Clearinghouse Rules, changes made here include adjustments not relating to MNOC-to-FLI conversion:

- Inclusion in first paragraph of last safeguard structure component (B3's cash), already mentioned in collateral use sequence;
- Inclusion in the sequence of use of collateral of free collateral posted by defaulting FTP or SP linked to other clearing members than the defaulting one, subject to their authorization.

- **Section 1.6 – Coverage level of the safeguard structure for credit risk:** fourth-paragraph list of safeguard structure components that change if credit stress test shows insufficient funds adjusted to exclude MNOC and include FLI contributions by FTPs and SPs.

- **Section 1.8 – General provisions**

**Subsection 1.8.2 – Updating required amounts and complying with safeguard structure obligations:** deletion of paragraph on amounts required from FTPs and SPs as MNOC, and inclusion of FTPs and SPs in next paragraph on amounts required as FLI contributions.

**Subsection 1.8.4 – Posting and withdrawing collateral:** inclusion of FTPs and SPs, as per previous item.

## **Chapter 2 – Procedures for a default or operational defaulter event**

- **Section 2.1 – Chain of responsibilities, Subsection 2.1.3 – Responsibility of full trading participant and settlement participants:** inclusion of reference to FLI in item (ii) on responsibility of FTPs and SPs for collateral posting.

- **Section 2.4 – Default by full trading participants or settlement participants, Subsection 2.4.4 – Use of collateral, item (b):** inclusion of reference to the use of contributions by defaulting FTPs or SPs after use of other collateral posted by them.

- **Section 2.5 – Default by clearing members, Subsection 2.5.4 – Use of collateral**

**Item (a):** deletion from title of “linked to their accounts under the responsibility of the clearing member declared a defaulter”, as this qualification is no longer necessary.

**Item (b):** deletion from title of “under the responsibility of the clearing member declared a defaulter”, as this qualification is no longer necessary, and inclusion of FLI contribution in types of collateral to be used.

**Item (c):** adjustments to sequence for use of collateral when clearing member defaults to include FLI contributions by FTPs and SPs.

**Section 2.6 – Use of collateral in case of failure to identify the defaulter participants Subsection 2.6.2 – Default by a full trading participant or settlement participant:** text on default by FTP or SP without identification of investor and default by trading participant adjusted to include FLI contribution from this FTP or SP among types of collateral to be used before collateral belonging to debtor investors deemed to be in default owing to non-identification of defaulting investor.

**Subsection 2.6.3 – Default by a clearing member**

**Item (a):** adjustments to description of collateral use in line with the adjustments made to Subsection 2.6.2.

**Item (b):** inclusion of FLI contributions among types of collateral to be used pertaining to FTPs and SPs deemed to be in default owing to non-identification of defaulting FTP or SP.

**Chapter 6 – Collateral management**

▪ **Section 6.1 – Eligibility criteria**

**Subsection 6.1.1 – Eligible assets:** deletion of reference to MNOC as part of safeguard structure component consisting of FILCB shares

**Subsection 6.1.2 – Collateral purposes**

Adjustments as follows due to MNOC-to-FLI conversion:

- Deletion of MNOC from list of purposes and tables 6.2-6.3;
- Inclusion of FTPs and SPs as FLI contributors in table 6.2.

Manual updated by deletion of paragraph on possibility of accepting Brazilian currency and federal government bonds as part of FLI contribution and MNOC until regulatory approval is obtained for FILCB, as this approval has now been obtained.

▪ **Section 6.4 – Monitoring and meeting collateral calls, Subsection 6.4.1 – Frequency of collateral calls:** deletion of references to MNOC passim.

▪ **Section 6.5 – Procedures for posting and withdrawing collateral**

**Introduction:** replacement of MNOC by “contribution to settlement fund” in list of collateral types that can be handled only by FTPs or SPs.



**Subsection 6.5.1.1 – Collateral deposit request:** inclusion of FLI contributions in list of collateral deposit requests to be registered by FTPs or SPs.

**Subsection 6.5.2.1 – Collateral withdrawal request:** inclusion of FLI contributions in list of collateral withdrawal requests to be registered by FTPs or FTPs.

**Subsection 6.5.2.2 – Collateral withdrawal request review – criteria for releasing collateral**

**Item (b):** inclusion in this item on release of collateral posted by FTPs and SPs of a list of collateral purposes to which collateral posted by FTPs or SPs can be allocated to align the item with the one on collateral posted by clearing members.

**Item (b.2):** in this item on free balance of collateral posted as MNOC, references to MNOC have been replaced by references to FLI contributions by FTPs and SPs, so that the item covers the free balance of these contributions.