

March 20, 2020  
009/2020-VPC

## **EXTERNAL COMMUNICATION**

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

Re: **Clarifications about Fluctuation Limits and the Circuit Breaker in B3's Markets**

Considering market conditions and the extent of recent price and rate fluctuations, which have led to the circuit breaker being triggered in the cash equities market and to fluctuation limits being reached in the derivatives market, B3 hereby provides you with specific clarifications about the functioning of these mechanisms.

### **Cash market**

- There are no limits on government bond and spot FX trading.
- In the case of cash equities, there is no price fluctuation limit, but rather a circuit breaker mechanism to cool down the market.
- Current circuit breakers in the equities segment:
  - Ibovespa at a -10% variation. Trading is suspended (not the variation limit) for 30 minutes and then reopens
  - Ibovespa at a -15% variation after the first circuit breaker. Trading is suspended again, this time for an hour, and then reopens
  - Ibovespa at a -20% variation after the second circuit breaker. Trading is suspended again, with reopening at the discretion of B3's Chief Executive Officer;
  - The circuit breaker is not triggered in the last 30 minutes of the trading session
- There may be specific rules for moments in a trading session where:
  - there is an options exercise
  - there is settlement price definition for derivatives contracts

## Derivatives market

- There are fluctuation limits, but not an interruption to trading. In other words, if the wish exists to trade again within the positive or negative variation limits, the trade will be accepted as per normal.
- There is no fluctuation limit on the last day of trading, to allow the futures price to converge with the contract's underlying or index.
- The setting of fluctuation limits and the processes of changing them in the trading session are described in the Frequently Asked Questions (FAQs) document published in 2018, attached to this External Communication and available at: [http://www.b3.com.br/data/files/6C/D6/F9/A6/9A44661000A35266AC094EA8/Q\\_A%20Daily%20Price%20Fluctuation%20Limits.pdf](http://www.b3.com.br/data/files/6C/D6/F9/A6/9A44661000A35266AC094EA8/Q_A%20Daily%20Price%20Fluctuation%20Limits.pdf).
- As described in the FAQs mentioned above, certain factors tend to increase or decrease the probability of the fluctuation limit of a contract being changed during the trading session in which it has been triggered (see the answer to question 8 of the FAQs).
- For example, one of the factors that tends to increase the probability of the fluctuation limit being changed during the trading session would be asset trading continuity in the cash markets.<sup>1</sup>
- The consideration of this factor is aligned with the possibility of executing position coverage and the unwinding or preparation of joint strategies between derivative and cash markets, among others. We believe this to be a fundamentally important point for third-party asset managers who, within the realms of the possible, always seek to execute their investors' wishes.
- It should be borne in mind that the eventual flexibilization to these limits has a secondary positive but not fundamental effect, namely the definition of a settlement price that is closer to market conditions.

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<sup>1</sup> Daily Price Fluctuation Limits – Answers to Frequently Asked Questions, of October 4, 2018, p 5, question 8:  
“(…)

The following factors in isolation tend to increase the probability that the fluctuation limit for a contract will **be changed** during a trading session in which it has been triggered:

(…)

- The existence of highly correlated contracts (sharing risk factors with the contract concerned to a significant extent) whose trading has not been influenced by fluctuation limits;”

- In this regard, please note that the marked-to-market price of the positions and the cash settlement price do not have precisely the same function in the valuation of a portfolio of financial assets. In normal market conditions their values may be the same. In extreme situations, however, their values may drift apart.

Further information is available from the Electronic Trading Department, by telephone on +55 11 2565-5023 or by email at [negociacao@b3.com.br](mailto:negociacao@b3.com.br).

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