

May 17, 2019
015/2019-VOP

C I R C U L A R L E T T E R

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

Re: **T+2 Settlement Cycle Project – Approval by the Regulators, Implementation Date and Plan, Publication of Guidelines and Transition Rules.**

We hereby inform you that on May 14, 2019, the Central Bank of Brazil (BCB) and the Securities and Exchange Commission of Brazil (CVM) granted B3 the authorizations necessary for implementation of the T+2 Settlement Cycle Project, which consist of reducing the settlement cycle of the cash equities market from T+3 to T+2.

Having received the required authorizations from the regulatory bodies and concluded tests at the BM&FBOVESPA Clearinghouse platform, we will implement the T+2 settlement cycle on **May 27, 2019**, on which date there will be the first trading session for the cash equities market with transactions contracted for settlement on T+2 , that is, on May 29, 2019.

1. New versions of the BM&FBOVESPA Clearinghouse and Central Depository guidelines

With implementation of the T+2 Settlement Cycle Project, new versions of the BM&FBOVESPA Clearinghouse Risk Management Manual, of the BM&FBOVESPA Clearinghouse Operating Procedures Manual and of the BM&FBOVESPA Central Depository Operating Procedures Manual will come into effect

The changes to the manuals detailed in Annex I to this Circular Letter have the objective of (i) adapting timeframes and operating procedures associated with

settlement, due to shortening the equity cash market's settlement cycle to T+2 from T+3; and (ii) adjusting and enhancing the text, seeking compliance with the prevailing procedures.

The new versions of these guidelines are available at www.b3.com.br, Regulation / Regulatory Framework / regulations and manuals / Clearing, settlement and risk management / Access the documents / Central Depository / Access Documents / Central Depository.

2. Temporary procedures for implementing reduction of the cash market settlement cycle from T+3 to T+2

The changes made to the BM&FBOVESPA Clearinghouse Operating Procedures Manual and the BM&FBOVESPA Central Depository Operating Procedures Manual come into effect on the first trading day with the T+2 cash market settlement cycle, in other words as of S-2.

However, as on the dates of the first three trading sessions with transactions contracted for execution on T+2 (S-2, S-1 and S Day) the BM&FBOVESPA Clearinghouse will still have positions to settle from transactions contracted under T+3 settlement rules, a transition period has been established in which some processes will follow different rules to those set out in the BM&FBOVESPA Clearinghouse Operating Procedures Manual.

The following dates convention has been adopted for describing the transitional rules:

S-9: date of the first trading session whose portfolio closeout strategy, in the risk management system, comes to have transactions for settlement on T+2;

S-4: date of the penultimate trading session with transactions contracted for settlement on T+3;

S-3: date of the last trading session with transactions contracted for settlement on T+3;

S-2: date of the first trading session with transactions contracted for settlement on T+2;

S-1: date of the second trading session with transactions contracted for settlement on T+2;

S Day: date of the third trading session with transactions contracted for settlement on T+2 and the first settlement date that observes the new settlement term after the cycle is reduced to T+2;

L+1: date of the fourth trading session with transactions contracted for settlement on T+2 and settlement date of the transactions executed on S-1;

L+2: date of the fifth trading session with transactions contracted for settlement on T+2 and settlement date for the transactions executed on S; and so forth.

2.1 Risk Treatment

The changes made to the BM&FBOVESPA Clearinghouse Risk Management Manual (Annex I) come into effect as of risk calculation at the end of S-4, affecting the calculation for the margin call to be met on S-3. Position closeouts generated by the methodology for determining closeout strategy for the defaulter's portfolio, when there is an asset flow, and representation of its respective cash flows, will comply with the rules in effect on the margin calculation date.

As of S-9, position closeouts projected for dates after S-2 must have representation of their cash flows based on a two-day settlement cycle. However, as the changes to the risk system come into effect only on S-4, in other words as of risk calculation at the end of S-4, the settlement dates of some position closeouts and the representation of their respective cash flows may be dislocated by one day in risk calculations executed between S-9 and S-4 (including). Risk calculation mismatches resulting from this will be processed by charging additional margin.

2.2 Authorization of delivery or receipt of assets

On the day after the first day of trading for settlement on T+2, in other words on S-1, the authorization process for custody transfer will occur for the trading sessions of the previous two days, in other words the S-2 session and S-3 session.

The settlement instructions for each of these sessions will be segregated, allowing the custody agent to authorize or reject the net balances of each session's transactions in an independent manner.

2.3 Multilateral net settlement

On S Day, in a single assets-delivery window, the Clearinghouse will settle the transactions executed on two trading dates, being:

S-3 (last trading session with transactions contracted for settlement on T+3); and
S-2 (first trading session with transactions contracted for settlement on T+2).

Settlement of assets

Asset settlement instructions for transactions executed in the two trading sessions will comprise, in a segregated manner, the instructions to settle on S day. When there are settlement instructions at opposite sides regarding transactions executed in the S-3 and S-2 sessions, the Clearinghouse will consider them settled at the compatible quantity.

Delivery failures on S Day will generate instructions to settle on the following day (S +1).

Cash settlement

Cash settlements of the two trading sessions will be cleared, producing a single cash settled result per clearing member.

2.4 Buy-in

Buy-in process time frames, within the scope of managing an assets delivery failure, will be the same whatever the transaction date entered into the settlement cycle in which the failure occurred, with the exception of the time frame for reversing the buy-in, as follows.

- Buy-ins associated with failures resulting from transactions executed before S-2 will be reversed on T+6 from settlement failure.
- Buy-ins associated with failures resulting from transactions executed as of S-2 will be reversed on T+5 from settlement failure.

2.5 Special treatment for fines

Considering the adaptation period for the new procedures, due to the settlement cycle of the equity cash market being reduced to T+2, fines charged on asset delivery failures will be assessed by the Clearinghouse and may be reversed, if the failures are operational in nature. It should be noted that this procedure will remain in effect up until and including June 28, 2019 at latest.

Additional fines will not have special treatment. In cases of operational failures, the participant must enter the justification into the RTC system so that there is no additional fine charged on T+6, as set out in the disciplinary standards pertaining to delivery failures, contained in item 8.1.5.2.1.5 of the BM&FBOVESPA Clearinghouse Operating Procedures Manual.

If the presented justification is not accepted by the Clearinghouse, after due analysis of the information provided, an additional fine will be charged on T+11, as set forth in item 8.1.5.2.1.6 of the BM&FBOVESPA Clearinghouse Operating Procedures Manual.

2.6 Exceptional processing of corporate actions with ex trading date on May 27, 2019

As disclosed in Circular Letter 134/2019-DIE, B3 guided companies so that in the case of earnings distributions, May 24, 2019 would not be defined as a cutoff date (date that identifies the holders of securities with a right to earnings receipt/exercise).

Due to the settlement cycle change, transactions executed on May 24 and 27, 2019 will be settled on a single day (May 29, 2019), not allowing differentiation of the assets that should be settled with or without the right to receive the earnings.

To assure settlement of any transactions that do not fit into this scenario, B3 announces the exceptional procedures that will apply for processing the corporate action, as set out in Annex II to this Circular Letter.

If there are corporate actions with an exceptional procedure not described in the items below, B3 will assess them and announce their processing in due course.

3. Public offers – CVM Instruction 400

For public offers, pursuant to the provisions of CVM Instruction 400, B3 will request the deposit of collateral, via custodian agents, from all investors participating in the retail offer, including linked persons, when such is the case, who make reserve requests. Custody agents will deposit the collateral foreseen herein, in Brazilian currency and/or federal government bonds, by 1:00 p.m. of the business day that follows the end of the reserve period and/or the exercise of the priority right. For deposits made in Brazilian currency, B3 will apply the procedure described in Circular Letter 024/2013–DP, of March 25, 2013.

4. Implementation plan and rollback plan

The timetable and the activities applicable to the implementation plan and rollback plan of the T+2 Settlement Cycle Project are described below.

Date	Time	Activity
May 25, 2019 (Saturday)	To 6:00 a.m.	Transmission of files of instruments parameterized to T+2:
		• BVBG.028
		• PAPT
	6:00 a.m.	Transmission of bulletin to the market
	2:00 p.m.	
	5:00 p.m.	
	to 5:00 p.m.	Validation of participants
	5:00 p.m.	Conference call with the market (Go/No Go)
5:00 p.m. to 2:00 a.m. (May 26)	Rollback plan activities (if triggered)	

On May 24, 2019 (Friday), the Clearinghouse's systems will close as normal, including overnight processing and file generation. Up until 6:00 a.m. on May 25, 2019 (Saturday) the instrument files will be provided (BVBG.028, PAPT and PAPD) regarding the opening of May 27, 2019, already parameterized for T+2 settlement.

The participants must perform the necessary procedures for implementation of the T+2 settlement cycle and internal validations by 5:00 p.m. of Saturday, the time established for the final conference call for monitoring implementation activities.

B3 will inform the participants of the status of implementation activities by sending bulletins over the course of Saturday and will monitor readiness through the External Transition and Sinacor teams.

Please note that:

- there is no activity foreseen for May 26, 2019 (Sunday) unless the rollback plan is triggered, to be confirmed by 5:00 p.m. of Saturday;
- there will be no mock trading session on May 27, 2019, for validation of the the capture of trades with test instruments for settlement on T+2.

Further information may be obtained from the Project T+2 Communication Group, by telephone on +55 11 2565-5340/5986 or by email at projetoD2@b3.com.br or with Settlement Processes and Services Support, by telephone on +55 11 2565-

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5010, option 4, or by email at liquidacao@b3.com.br and for questions and incidents concerning files of instruments, contact the Trading Support by telephone on +55 11 2565-5021 or by email at tradingsupport@b3.com.br.

Cícero Augusto Vieira Neto
Chief Operating Officer

José Ribeiro de Andrade
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Annex I to Circular Letter **015/2019-VOP**

I. **BM&FBOVESPA Clearinghouse Operating Procedures Manual**

1. **Changes related to implementing reduction of the settlement cycle of the cash equities market to T+2**

Chapter 6 – Position control

Subsection 6.4.1.2 – Early settlement of assets traded in the forward market

▪ **Subsection 6.4.1.3 – Cancelling early settlement requests**

Subsections 6.4.1.2 and 6.4.1.3 have been altered to reflect (i) the reduced time frame for requesting early settlement of a partially covered contract, from nine to six business days as of the opening date of the contract and (ii) exclusion of the possibility of requesting and cancelling the request for forward contract early settlement for three business days.

▪ **Subsection 6.6.3 – Renewals**

The change seeks to alter the time limits for requesting renewal of a securities lending agreement, from up to four to up to three business days before expiration of the agreement.

▪ **Subsection 6.6.4 – Early settlements**

The change seeks to alter the early settlement dates of the securities lending agreement requested by the lender, (i) from the third to the second business day after the request date, if requested by 9:30 a.m. and (ii) from the fourth to the third business day following the request date, if requested after 9:30 a.m.

▪ **Subsection 6.8.3 – Processing corporate actions for securities lending positions**

The modifications seek to change some of the dates of items 4 and 5, as below.

Item 4. Corporate actions automatically generating rights in the BM&FBOVESPA central depository - subscription rights

There have been changes to:

- (i) the settlement date of transactions executed during the closing call and of the return of the subscription right by the borrower to the lender, from the

ninth to the eighth business day after the day the asset is to be updated at the BM&FBOVESPA central depository;

- (ii) the date on which the lending investor can opt between (a) receipt of the financial value related to the subscription right, and (b) registration of the contract in a subscription receipt, from the tenth to the ninth business day after the day the asset is to be updated at the BM&FBOVESPA central depository;
- (iii) the receipt date for the financial value as applicable treatment, in cases where the lending investor is not forthcoming or the subscription results in an asset that is not subject to securities lending system contracting, from the 11th to the tenth business day after the day the asset is to be updated at the BM&FBOVESPA central depository;
- (iv) the expiration of subscription receipt agreements and the expiration of subscription warrants, from four to three business days after the certification of the subscription.

Item 5. Voluntary corporate actions

The expiration date has been changed for securities lending agreements eligible for priority placement processing, from four to three business days as of the settlement date of the placement.

Chapter 7 – Multilateral netting

- **Subsection 7.1.2 – Calculating the multilateral net balances in assets held in custody of the BM&FBOVESPA central depository**

- **Subsection 7.1.2.2 – Authorizing asset delivery or receipt**

The changes consist of including a procedure and hour window for the custody agent to authorize or reject the delivery of the balance of positions directed to it during trade allocation and after the allocation deadline has passed; and of reorganizing the text of the subsection.

- **Subsection 7.1.2.3 – Deposit account modification**

The changes consist of adjusting the hour window for requesting a change to the deposit account designated in trade allocation.

- **Subsection 7.1.2.4 – Subaccount modification in the settlement instruction**

The changes consist of adjusting the hour window for requesting subaccount change in the multilateral netting instruction.

Chapter 8 – Multilateral net settlement

Subsection 8.1.4 – Hour windows

The purpose of the schedule change is to adjust times due to the reduction of the settlement cycle to T+2.

▪ **Subsection 8.1.5.1.1 – Restriction mechanism**

The modification seeks to widen the restriction mechanism, allowing the custody agent to request restriction of the delivery of assets to an investor that has not honored its payment with the full trading participant or settlement participant.

▪ **Subsection 8.1.5.2.1 – Asset delivery failure in the equities market**

The changes consist of adjusting the time frames and hours of the asset delivery failure management, being:

- (i) the issuance time of the buy-in order (section 8.1.5.2.1.1 – Buy-in order execution);
- (ii) deadline for issuing a buy-in order (section 8.1.5.2.1.3 – Buy-in order reversal);
- (iii) the date of the buy-in order reversal and of calculation of the closing price and time frames observed in the processing failures characterized as nonoperational (Subsection 8.1.5.2.1.4.3 – Nonoperational failures);
- (iv) the time frames observed in the application of minimum and additional fines (subsections 8.1.5.2.1.5 – Minimum fine and 8.1.5.2.1.5.2 – Additional fine, respectively);
- (v) the time frames observed in the requests to reconsider fines for asset delivery failures (Subsection 8.1.5.2.1.6 – Requests for reconsideration).

Chapter 11 – Sector fund auctions

This chapter's changes seek to bring in line the time frames and operational procedures relative to the settlement of special auctions of sector or regional funds.

2. Adjustments and enhancements to the text, seeking compliance with the prevailing procedures

Chapter 2 – Accounts, links and subaccounts

Subsection 2.1.1 – Type of account links

This is an adjustment to the text that describes the intermediary account in such way as not to restrict the account held by the end customer in the registration process.

Chapter 4 – Transaction execution at the clearinghouse

Subsection 4.1.1.2 – Specific features of borrowing orders

The change consists of moving the text from the second paragraph of Subsection 4.1.1.2, which describes the means (system screen or electronic messages) through which the participant executes the procedures described in section 4.1, to the end of the chapter, seen as applicable to all this section.

Chapter 5 – Trade capture, allocation and give-up

Subsection 5.1.1 – Trade capture

The change consists of enhancing the wording, making the validation rules at trade capture clear.

Chapter 6 – Position management

The purpose of the change is to make it clear that the trade cancellation event accepted by the clearinghouse updates the positions.

Chapter 8 – Multilateral net settlement

- **Subsection 8.1.1.1 – Delivery of assets under the custody of the BM&FBOVESPA central depository**

The purpose of the change is to correct the time for crediting the assets, from 3:25 p.m. to 3:50 p.m.

Chapter 9 – Gross settlement process and bilateral settlement process

- **Section 9.1 – Gross settlement process**
- **Section 9.2 – Bilateral settlement process**

The change consists of enhancing the wording, to make the rules clear as applicable to the full trading participant and to the settlement participant in the gross settlement and bilateral settlement processes.

II. BM&FBOVESPA Clearinghouse Risk Management Manual

1. Changes associated with implementation of reducing the settlement cycle of the cash equities market to T+2

Chapter 3 – Managing a delivery failure along the closeout process of the defaulter participant’s positions

- **Section 3.2 Executing a buy-in order**

The changes consist of (i) changing the time for the buy-in order from 11:00 a.m. to 12:00 noon and (ii) bringing forward by one day the reversal of the buy-in and of the reference date of the closing quotation of the asset used in the calculation of values to settle with the creditors damaged by delivery failure and with the failing debtor investor in the case of buy-in reversal.

Chapter 7 – Risk calculation

- **Section 7.4 Closeout strategy**
- **Section 7.6 Determining risk measures**
- **Section 7.7 Module CORE0 – risk calculation of allocated positions under the collateralization mode by investors**

The changes consist of:

- (i) bringing forward by one day the settlement dates of the cash market positions referred to in the closeout strategies described in these subsections;
- (ii) adapting the presented examples:
 - a. in item (c) Closing out positions in securities lending agreements of Subsection 7.4.2.4 – Positions in derivatives contracts and lending agreements to be settled in cash and assets;
 - b. in items (a) Subaccount containing positions whose settlement involves the same underlying asset and (b) Subaccount containing any types of assets, agreements and collateral of 7.4.2.6 – Cash market positions combined with lending agreement and derivative contract positions with cash settlement or delivery of assets and deposited collateral;
 - c. in Subsection 7.6.2 – Transitory loss;
 - d. in Subsection 7.7.1 – Investor’s risk – Worst aggregate loss and worst risk scenario.

III. BM&FBOVESPA Central Depository Operating Procedures Manual

1. Changes associated to the implementation of the reduction of the cash equities market's settlement cycle to T+2

Chapter 6 – Managing Corporation actions

- **Subsection 6.1.1.3 – Updating underlying asset balances**

The diagram that represents the update procedure for corporate actions, currently based on the T+3 settlement cycle, has been adjusted to the T+2 settlement cycle.

Annex II to Circular Letter 015/2019-VOP**I. Processed corporate actions**

The following types of corporate action will be processed by the extraordinary procedure described in this Circular Letter:

- interest on own capital;
- dividend;
- earnings;
- bonus issue without changing the underlying asset;
- reverse splitting;
- share splitting.

II. Corporate actions in assets without changing the underlying asset (reverse splitting, share splitting and bonus issue)

In order for there to be settlement on May 29, 2019 of assets that fit the status of a corporate action in assets deliberated with a cutoff date on May 24, 2019, exceptionally during overnight processing of May 24, 2019 the BM&FBOVESPA Central Depository will, one business day in advance, update the balance of this asset. The Clearinghouse will adopt the following procedures regarding instructions to settle assets traded in the May 24, 2019 session (with the right to receive earnings):

- B3 will calculate the corporate action and update the instruction to settle assets, adjusting the quantity but keeping the financial value unchanged.
- The Clearinghouse will cash settle the quantity equivalent to the fraction, if applicable, entering a debit from the seller and a credit to the buyer, in the multilateral settlement window of May 29, 2019.

The BVBG.019 (settlement forecast) and BVBG.021 (cash settlement), files

provided on the morning of May 29, 2019, will be updated with this treatment.

III. Corporate actions in financial resources (dividends, interest on own capital and earnings)

In order for there to be settlement on May 29, 2019 of assets that fit the status for a corporate action in financial resources deliberated with a cutoff date on May 24, 2019, exceptionally in the overnight processing of May 28, 2019, the BM&FBOVESPA Central Depository will, one business day in advance, update the balance of this asset and the provision of earnings. The Clearinghouse will update distribution of the asset settlement instructions of the May 24, 2019 session, without recalculation of the average price and financial volume. The BVBG.019 file, provided at the start of May 29, 2019, will be updated with this treatment.

After the asset delivery window of May 29, 2019, the Clearinghouse will calculate, for the asset settlement instructions of the May 24, 2019 session (with the right to receive earnings):

- for delivery failures, the Clearinghouse will enter a credit to the buyer and a debit from the seller of the gross value of the action, in the day's multilateral settlement window;
- for fully or partially settled instructions, the Clearinghouse will execute treatment by transferring the earnings provisioned by the BM&FBOVESPA Central Depository, debiting the seller and crediting the buyer, and/or; in the case of insufficient proceeds, will execute financial treatment, entering a debit from the seller and a credit to the buyer corresponding to the gross value of the action, in the day's multilateral settlement window.

Financial entries will be provided in the BVBG.021 complementary file sent at 2:00 p.m.; and the transfer of earnings provisions, if applicable, will be sent in the CMVC file of the BM&FBOVESPA Central Depository (complementary transfer) at 4:00 p.m.

Considering the abovementioned scenarios where the BM&FBOVESPA Central Depository can execute exceptional processing during May 29, 2019 for the corporate actions with a May 24, 2019 base date, the custody agents and registrars must observe the information sent in the overnight processing of May 29, 2019 to the CDIX and EDIV files:

- CDIX (file provided to custody agents with the provision of cash corporate actions): considers the file provided in the overnight processing of May 29, 2019 to compose the updated base of the corporate action.
- EDIV (file provided to the registrars with the provision of cash corporate actions): considers the EDIX file provided in the May 29, 2019 overnight processing to compose the updated base of the corporate action.