



November 18, 2021

147/2021-PRE

CIRCULAR LETTER

To: Listed B3 Participants

Re: **Changes to the B3 Clearinghouse Risk Management Manual and to the B3 Clearinghouse Operating Procedures Manual.**

B3 hereby informs you that after receiving the due regulatory authorizations, it will implement changes to the B3 Clearinghouse Risk Management Manual and to the B3 Clearinghouse Operating Procedures Manual, regarding the fixed income ETF securities lending service, made available as of **November 22, 2021**, as set forth in Circular Letter 143/2021-PRE, dated November 9, 2021.

The changes to the B3 Clearinghouse Risk Management Manual and to the B3 Clearinghouse Operating Procedures Manual are described in detail in the Annex hereto.

The new versions of the normative documents will come into effect on **November 22, 2021**, and will be available at www.b3.com.br/en_us/, at Regulation, Regulations and manuals, Clearing, settlement and risk management, Access the documents, B3 Clearinghouse.

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Further information can be obtained from Settlement Processes and Services Support by calling +55 11 2565 5014 or emailing liquidacao@b3.com.br, or from the Risk Management Department by calling +55 11 2565-5034 or emailing risco.suporte@b3.com.br.

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Annex I to Circular Letter 147/2021-PRE

Description of the Changes

1. B3 CLEARINGHOUSE RISK MANAGEMENT MANUAL

The changes to the B3 Clearinghouse Risk Management Manual encompass:

- (i) change to the closeout strategy for fixed income ETF shares in the cash market;
- (i) introduction of a new position closeout strategy for fixed income ETF securities lending;
- (ii) corrections to assure compliance with the prevailing mechanisms and procedures.

The changes referred to in (i) and (ii) seek to enhance risk modelling for fixed income ETF securities lending. To assess the risk of a portfolio (positions and corresponding collateral) the CORE methodology depends on determining an appropriate closeout strategy, which is the equivalent of *a priori* definition of which procedure should be executed on a daily basis, until the portfolio is fully closed out.

CHAPTER 3 - MANAGING A DELIVERY FAILURE ALONG THE CLOSEOUT PROCESS OF THE DEFAULTER PARTICIPANT'S POSITIONS

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The text changes aim to clarify the process for delivery failure treatment and specifies the treatment difference according to asset type – equity or fixed income ETF share.

Section 3.2. – Executing a buy-in order – equities market

Section 3.3. – Cancelling a buy-in order – equities market

Complementation to the section's title to clarify that the procedures set out in the section refer to the equities market.

Section 3.4. – Reversing the buy-in – equities market

The changes consist of:

- complementation to the section's name to specify that the procedures refer to the equities market
- rectification of the number of days required to reverse the buy-in from T+3 to T+4 and of the closing quotation date used to calculate the value of the buy-in reversal from T+2 to T+3, in order to bring what is described in this Manual in line with what is described in the B3 Clearinghouse Operating Procedures Manual

Section 3.5. – Managing a delivery failure of fixed income ETF shares by the defaulter investor along the closeout process of said investor's positions

Section 3.6. – Executing a buy-in order – fixed income ETF shares

Section 3.7. – Cancelling a buy-in order - fixed income ETF shares

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Section 3.8. – Reversing the buy-in - fixed income ETF shares

These are new sections that describe procedures for the treatment of fixed income ETF share delivery failures and, in the case of a buy-in, procedures for the execution, cancellation and reversal of a buy-in order.

CHAPTER 7 – RISK CALCULATION

Section 7.4. – Closeout strategy

- **Subsection 7.4.2 Closeout strategies for different sets of positions**
- **Subsection 7.4.2.2 Positions in the cash equities and fixed income ETF markets**
- **Subsection 7.4.2.6 Cash market positions combined with securities lending agreement and derivative contract positions with cash settlement or delivery of assets and deposited collateral**

The changes aim to adapt the closeout strategy for cash market long and short positions to be settled to the differences:

- a) between the two markets' settlement cycles (two days, in the case of equities and one day in the case of fixed income ETF);
- b) in delivery failure treatment (failure position, in the case of equities, and buy-in position in the case of fixed income ETFs).

In subsection 7.4.2.2. there has also been implementation of a (i) change to the settlement date in the covered short position example in the cash equities market,

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from T+3 to T+2, in compliance with the prevailing provisions and (iii) correction to the simulation date for the risk scenarios, from T+4 to T+3.

In subsection 7.4.2.6. changes have been made to encompass position closeouts in fixed income ETF securities lending.

Subsection 7.4.2.3. - Positions in the corporate debt market

Exclusion from the subsection's title and content of the mention of fixed income ETF shares, as position closeout in the fixed income ETF cash market has become the subject of subsection 7.4.2.2.

Subsection 7.4.2.4. - Positions in derivatives contracts and securities lending agreements to be settled in cash and assets

Change to item (c) of this subsection, seeking to:

- a) encompass the differences described in the settlement cycles of equity assets and fixed income ETF shares;
- b) correct figure 7.49a (previously numbered 7.46) so as to reflect (i) what is set out in the example's text (ii) correction of the maximum dates on which securities lending agreements can be brought forward during the closeout process of lending positions in equity assets, seeking compliance with the prevailing provisions.

2. B3 CLEARINGHOUSE OPERATING PROCEDURES MANUAL

CHAPTER 3 – TRANSACTION MODES

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Section 3.2. – Modes in the trading environments

The change consists of the exclusion of the list of fixed income market products, in the fully collateralized mode. The change will prevent the need to change the prevailing rule upon the creation of each new fixed income market product.

CHAPTER 4 – TRANSACTION EXECUTION AT THE CLEARINGHOUSE

Section 4.1. Securities lending agreements

- **Subsection 4.1.1. – Equities securities lending registration**
- **Subsection 4.1.2. – Equities securities lending electronic trading**
- **Subsection 4.1.3. – Equities securities lending execution with use of the broker dealer account**

The changes aim to define and differentiate the contracting of equity securities lending and of fixed income securities lending.

- **Subsection 4.1.4. – Fixed income ETF shares lending registration**

Inclusion of subparagraph 4.1.4, which describes the operating procedures for fixed income ETF securities registration, encompassing the specific characteristics of borrowing and lending orders, carrying participant designation, custodian indication, pre-lending agreement generation, and the attributes of borrowing and lending orders.

Changes have also been made to (i) limit the supply of private lending orders strictly to the full trading participant; (ii) rectify the grace period for lending

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orders eligible for delivery failure treatment; (iii) specify the situations in which the pre-agreement is generated as of the activity of the full trading participant; (iv) substitute “lender fee” for “lending fee” and “on the orders screen” for “in the order book”; and (v) include the concept of grace date in the item on lending order attributes.

CHAPTER 6 – POSITION MANAGEMENT

Section 6.6. – Lending position maintenance

- **Subsection 6.6.2. – Modifications**
- **Subsection 6.6.3. – Renewals**
- **Subsection 6.6.4. – Early settlements**

The changes aim to differentiate the rules and procedures for modification, renewal and early settlement applicable to the fixed income ETF securities lending agreement.

CHAPTER 8 - MULTILATERAL NET SETTLEMENT

8.1. Net settlement procedures

- **Subsection 8.1.3. - Delivery of assets to creditors of assets and payment of funds to net creditors**

The changes aim to set out the procedure, which is coordinated by the clearinghouse, for the delivery of assets against payment of the financial value associated with the fixed income ETF securities lending transaction.

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- **Subsection 8.1.5.2.2. – Delivery failure of gold and assets traded in the corporate debt market**

The change consists of describing the rules and procedures that the clearinghouse adopts in the case of delivery failure of gold and assets traded in the corporate debt market, incorporating fixed income ETF securities lending, encompassing the order of action, mandatory execution, reversal of the debit, reversal of the credit and the other stages of the process.

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