

REJECTION TUNNELS METHODOLOGY FOR SECURITIES LENDING ELECTRONIC TRADING

Rejection Tunnels Methodology for Securities Lending Electronic Trading



SUMMARY

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1 SCOPE

Description of the rejection tunnel methodology, applicable to offers and trades, whose objective is to reduce the occurrence of operational errors and avoid distortion in price formation.

The methodology is applicable only to electronic trading modalities T+0 and T+1, not being applicable to the registration.

2 METHODOLOGY

Offers and trades will pass under tunnel criteria review as set out below:

Fixed Rejection Tunnel: determines upper and lower limits based on a percentage defined for the modality and the average rate of trades carried out on T-1, as per the calculation below:

FRTu: Avg. rate + P

FRTl: Avg. rate - P

Where:

FRTu: the upper limit Rejection Tunnel, its maximum value being 499.99999%

FRTl: the lower limit Rejection Tunnel, its minimum value being 0.00001%

P: Percentage defined for the modality

Avg. rate: Average rate of trades carried out on T-1 in the asset and modality.

For scenarios in which there is no average rate disclosed in T-1, the following criteria will be considered:

1. Last available average rate for the asset in traded mode, or
2. Minimum rate accepted for the product – 0.00001%

The values established for the tunnels of the T+0 and T+1 modes will be calculated when the system opens and will not change during the negotiation.

3 EXAMPLES

3.1 Fixed Tunnel T+0 or T+1 - With previous day average rate

Asset ABCZ4

Avg. rate T-1: 2%

Fixed percentage for the asset: 50%

Upper Limit: 52%

Lower Limit: 0,00001%

Offer Upper 52% will be rejected.

3.2 Fixed Tunnel T+0 or T+1 - Without previous day average rate

Asset ABCZ5

Avg. rate T-1: Inexistent

Avg. rate T-n: 1%

Fixed percentage for the asset: 50%

Upper Limit: 51%

Lower Limit: 0,00001%

Offer Upper 51% will be rejected.

3.3 Fixed Tunnel - No average rate history

Asset ABCZ11

Avg. rate T-1: Inexistent

Avg. rate T-n: 1% Inexistent

Minimum rate: 0,00001%

Fixed percentage for the asset: 50%

Upper Limit: 50,00001%

Lower Limit: 0,00001%

Offer Upper 50,00001% will be rejected.