



**REPORT ON THE PUBLIC CONSULTATION RESULTS PUBLISHED  
VIA EXTERNAL COMMUNICATION 046/2021-VNC, DATED JULY 27,  
2021 REGARDING CHANGES TO THE NORMATIVE DOCUMENTS  
OF THE B3 CLEARINGHOUSE, B3 FOREIGN EXCHANGE  
CLEARINGHOUSE, B3 CENTRAL DEPOSITORY AND OTC B3 FOR  
ADJUSTMENT TO THE B3 RECOVERY PLAN**

**March 22, 2022**

**1. INTRODUCTION**

The B3 Recovery Plan (Recovery Plan) is a document intended to present and formalize a set of recovery strategies in response to extreme scenarios with the potential to affect the continuity of critical services and systems offered by Financial Market Infrastructures (FMI) managed by B3 as a mitigating factor of the risk of such FMIs to adversely impact the financial system if one or more of such extreme scenarios materialize.

According to Central Bank of Brazil (BCB) Communication No. 32,549 of 09/13/2018, FMI operated by B3 are classified as systemically important and are monitored and assessed based on compliance with the Principles for Financial Market Infrastructure (PFMI), as set out in BCB Communication No. 25,097 dated January 10, 2014.

In this context, the recovery plan was drawn up meeting the recommendations of PFMI Principle 3, which determines that FMIs must develop a robust risk management structure compatible with the complexity of its operations, containing policies, procedures, controls, information systems and a recovery plan, among other instruments. In addition to Principle 3, the recovery plan follows the guidelines of PFMI Principle 15 for general business risk management and the



recommendations contained in the 2017 Recovery of Financial Market Infrastructures report which is a specific guide to develop an FMI recovery plan.

In its External Communication 046/2021-VNC, dated July 27, 2021, B3 submitted to public consultation a proposal for amendments to the B3 Clearinghouse, B3 Foreign Exchange Clearinghouse, B3 Central Depository and B3 OTC normative documents for appraisal and comments of its participants and other stakeholders for adjustment to the recovery plan.

Initially, B3 wishes to thank all those who participated in the public consultation process. The comments received are of great value and have undoubtedly contributed to the reflection on the rules addressed herein.

The public consultation received contributions from six (6) entities, four (4) from institutions that act at B3 as full trading participant (FTP), settlement participant (SP) and/or clearing member (CM), one (1) from the Brazilian International Banks Association (ABBI) and one (1) from the Brazilian Ministry of Economy's Competition and Competitiveness Advocacy Department (SEAE/ME).

The contributions received from the entities who granted B3 authorization for such publication and the drafts (i) of the B3 Clearinghouse Rules, (ii) of the B3 Clearinghouse Risk Management Manual, (iii) of the B3 Clearinghouse Operating Procedures Manual, (iv) of the B3 Foreign Exchange Clearinghouse Rulebook, (v) of the B3 Foreign Exchange Clearinghouse Risk Management Manual, and (vi) of the B3 Foreign Exchange Clearinghouse Operating Manual, with additional amendments from the contributions, can be found on the B3 portal ([www.b3.com.br](http://www.b3.com.br), Regulation, Public Consultation - Adaptation of Regulations to the B3 Recovery Plan).

The next sections of this report are organized as follows:

- Section 2 – Comments and suggestions received;
- Section 3 – Analyses and clarifications by B3; and
- Section 4 – Conclusions.

**[B]<sup>3</sup>**

## **2. COMMENTS AND SUGGESTIONS RECEIVED**

The comments and suggestions presented to B3 are quoted herein in summarized form.

### **Payment of cash call by non-defaulting CMs (cash call)**

- 2.1** Amendments that may lead to a lack of limit to participants' contributions may compromise the form of central counterparty risk assessment and B3's status as qualified central counterparty (QCCP), as well as the proper dimensioning of the risk to which institutions will be exposed.
- 2.2** Additional cash calls to replace losses and netting aspects in stress scenarios may potentially affect international rankings for qualification of the central counterparty.
- 2.3** Although the amount of deposits is limited to twice the contribution from CMs to the clearinghouse's default fund during recovery plan execution, the drafts submitted to the public consultation do not provide for the following:
- (i) The recovery plan closing date;
  - (ii) If cash deposits by CMs are due whenever a CM is declared as defaulting during the recovery plan execution or if they are limited to the amounts provided for in B3's rules;
  - (iii) If deposits will be allocated to the clearinghouse's default fund and if they will follow the default fund rules; and
  - (iv) Although there is a provision on the deposit reimbursement, the regulations are not clear as to the receipt by CMs.
- 2.4** In the drafts submitted to the public consultation, the maximum contribution limit from each non-defaulting CM is not defined. This creates, in the market's perception, an unlimited payment obligation.



- 2.5** It is suggested that the new wordings to the B3 Clearinghouse and B3 Foreign Exchange Clearinghouse rules expressly include a limit to the amount to be paid by non-defaulting CMs.
- 2.6** Considering that the B3 Clearinghouse's safeguard structure is sized to remedy the default of the two largest CMs and considering that the B3 portfolio risk calculation system for determining the margin required from participants has a confidence level greater than 99%, it is recommended to consider a maximum number of additional cash calls limited to twice the contribution amount required by CMs to the default fund in each activation cycle, limited to eight (8) times the amount of the contribution made by CMs to the default fund in total. The same concept applies to the B3 Foreign Exchange Clearinghouse.
- 2.7** The proposal to limit the total amount deposited by CMs in any twenty (20) consecutive business day period, considering all calls made, cumulatively to eight (8) times the amount of the contribution required from CMs to the default fund, seemed much higher than the average of other central counterparties (CCP) globally. It is suggested to re-assess and reduce the proposed limit, comparing it to the practice of other CCPs with similar relevance as B3.
- 2.8** B3's obligation to participate in the recovery plan is lower than that of non-defaulting agents and may lead to undesirable behavior.
- 2.9** The indefinite deadlines to request and reimburse cash deposits from non-defaulting agents and the modest use of B3's own funds (for the financial restoration of the business environment) might change the sector's competitiveness and impose additional costs on companies, thus compromising the business environment and innovation.
- 2.10 Deferral/change of settlement window date** The postponement of settlement date by one or more days does not clarify how B3 will remain in compliance with PFMI Principle 8, according to which an FMI must process the final settlement of obligations by settlement date at the latest.

- 2.11** A deferred settlement date may also generate uncertainties for CMs and other participants regarding the final settlement date and the payment of open obligations, resulting in the need for significant capital allocation by participants and impacting the conclusions of netting opinions that should be carried out in order to assess CCP's risks.
- 2.12** Furthermore, the postponement of the settlement date does not prevent the regular operation of trading and post-trade environments on the days following the activation of the recovery plan.
- 2.13** Changing the settlement date may generate systemic implications and may affect, among others, the netting concepts analyzed during risk assessments and the maintenance of back-to-back transactions that depend on settlement of preceding transactions.
- 2.14** It is understood that there should be no amendment to the settlement date of trades settled through B3 clearinghouses due to the fact that other tools that may be adopted by B3 in any execution of the recovery plan should be sufficient to cover any defaults of settled trades, in particular considering cash call obligations.
- 2.15** It is suggested that, instead of adopting the tool, B3 should assess the possibility of adopting variation margin gains haircutting (VMGH) and partial tear-up (PTU) mechanisms for B3 Clearinghouse, which may generate similar financial results without the effect of changing the settlement date with creditors.
- 2.16** It is suggested to exclude the possibility of a deferred settlement date for multilateral net settlements. However, if such possibility is maintained, it is suggested that a maximum limit of deferred days be included, and this should be strictly operational and consider the maximum time limits currently existing at B3 Clearinghouse or at B3 Foreign Exchange Clearinghouse, as applicable, whereby (i) the new settlement date shall be informed at the same time as B3 communicates the settlement date postponement, and (ii) in the event, in



relation to B3, of an insolvency, bankruptcy or any similar event, the settlement date should be immediately brought forward to the date of such insolvency event, thus enabling to offset the multilateral net balances with other obligations related to B3.

### **Indexation of amounts to settle at a date later than the expected date and of amounts received from cash call**

**2.17** It is necessary to identify the person responsible for paying the costs (adjusted by the DI rate disclosed by B3 free of taxes and charges), if a cash call is required from a non-defaulting CM or the cash settlement date is changed due to the recovery plan execution.

### **Use of B3's own funds dedicated to one clearinghouse's safeguard structure for covering the failure of another clearinghouse**

**2.18** The mechanism suggested by B3 would generate a negative impact on non-defaulting CMs in the clearinghouse not affected by the recovery plan and might affect the risk analysis due to a weakened safeguard structure, given that the use of B3's contribution to the default fund, in the case of B3 Clearinghouse, and the FX default fund, in the case of B3 Foreign Exchange Clearinghouse, precedes the contributions from non-defaulting CMs to the default fund in the use of funds in the event of failure, affecting the seniority of contributions from such CMs. In other words, non-defaulting CMs of a given clearinghouse that are not subject to the recovery plan would be harmed by the failure of the destination clearinghouse and might also be subject to complement their contribution to the default fund of the source clearinghouse. Furthermore, with regard to the second tranche of B3's own funds, it is understood that the use of such funds, although it does not affect other participants' seniority, might weaken the safeguard structure of the contributing Clearinghouse and this measure should be avoided.

### **Cancellation of access authorization**

**2.19** Includes a provision in the regulations to define that, should a CM be required to make a compulsory deposit arising from the recovery plan execution, they (and/or their agents) may choose to request the cancellation of the access authorization to B3 Clearinghouse (and/or B3 Foreign Exchange Clearinghouse) at each execution cycle, so that the CM is able to limit its responsibility to cash calls when opting for the cancellation.

**2.20** The cancellation of non-defaulting CMs, once requested, shall be confirmed independently of any prior determination by B3, and, in this case, the recovery plan activation shall not affect the CM's right to receive the following:

- (i) After non-defaulting of the CM's obligations (or the agent's, as the case may be) in the operations settlement chain, the reimbursement of the amounts contributed by such CM to the recovery plan and/or to the safeguard structure of B3 Clearinghouse and/or B3 Foreign Exchange Clearinghouse in accordance with the general reimbursement rule provided for in B3 regulations, including but not limited to, redemption of default fund and/or exchange fund shares in accordance with their respective regulations; and
- (ii) The payment of amounts in which such MC or agent appears as creditor relating to multilateral net balances that have been postponed as part of the recovery plan. In this case, the indexation cost of the amounts to be reimbursed shall be borne by B3.

### **Activation of the recovery plan, communication and procedures**

**2.21** Considering the exceptional nature of the recovery plan activation, the measures that can be adopted by B3 in such scenario and, in particular, the systemic effect that such measure can cause to the National Financial System



as a whole, it is understood that the recovery plan activation should be subject to prior authorization by BCB and/or by the Securities and Exchange Commission (CVM).

**2.22** The clearinghouse regulation should explain the operating procedures to be adopted if B3 decides to activate the recovery plan, especially with regard to the postponement of the settlement date.

**2.23** Provide for the preparation of a standard notification to be sent to the market in the event the recovery plan is activated containing a description of the measures to be taken by B3, especially as to the settlement date postponement with regard to:

- (i) Matching flows between custodians and SPs/FTPs;
- (ii) Clients'/investors' instruction to custodians;
- (iii) Availability of updated B3 Clearinghouse reconciliation files; and
- (iv) Infrastructure requirements.

**2.24** The B3 Clearinghouse Rules does not establish stress scenarios that can serve as trigger points to activate the obligations set out in the recovery plan. In fact, only the B3 Foreign Exchange Clearinghouse Rulebook describes such scenarios, referred to as special situations (Chapter XII, Section I, Art. 47), considering the recovery plan as a new special situation in itself.

**2.25** The measures provided for in the recovery plan that oblige non-defaulting agents to contribute to the restoration of the clearinghouses' financial health, should have a pre-established order (from the least onerous to the most onerous from the perspective of the non-defaulting agents), so as to maintain the attractiveness of the business environment and avoid judgments.

### **Effects of the recovery plan on a potential insolvency scenario at B3**

**2.26** To make the recovery plan proposal compatible with the provisions of the B3 Clearinghouse Rules and the B3 Foreign Exchange Clearinghouse Rules applicable to B3 insolvency events, it is understood that the both the B3 Clearinghouse Rules and the B3 Foreign Exchange Clearinghouse Rules shall make it clear that the composition of CMs' or, as the case may be, agents' multilateral net balances should consider the amounts owed by the B3 Clearinghouse to CMs or by the B3 Foreign Exchange Clearinghouse to the agents (as the case may be) possibly collected due to the recovery plan activation.

#### **Competitive impact analysis**

**2.27** There are no significant impacts related to the anti-competitive nature of the amendments proposed by B3 in its various regulations, as the regulatory changes apply uniformly to the whole market and do not necessarily interfere with new market entrants' access.

#### **Regulatory complexity**

**2.28** The wording of regulatory provisions with regard to the activation, procedures and measures regarding the recovery plan should be reviewed and standardized.

**2.29** Wording suggestions to mitigate the nonconformities pointed out to generate greater predictability, clarity and regulatory justice, thereby providing for greater stability of the business environment.

### **3. ANALYSES AND CLARIFICATIONS BY B3**

Below B3 presents its analysis and clarifications based on each topic covered in Section 2.

It should be noted that the item numbering in this section is not related to the numbering presented in the previous section, i.e., the numerical sequence used in the following items is exclusively intended to present the analyses and clarifications in an ordered fashion according to the contributions received from the public consultation.

#### **Impact on capital allocation from participants subject to prudential rules**

- 3.1** The recovery plan was drawn up following the recommendations of PFMI Principle 3, which determines that FMIs develop a robust risk management structure compatible with the complexity of their operations, containing policies, procedures, controls, information systems and a recovery plan, among other instruments. In addition to Principle 3, the recovery plan follows the guidelines of Principle 15 for general business risk management and the recommendations contained in the Recovery of FMIs report which is a specific guide to develop an FMI recovery plan.
- 3.2** The inclusion in a regulation of the rules related to the recovery plan entails a higher level of compliance by B3 with the PFMI guidelines related to the recovery plan and disclosure of rules and procedures.
- 3.3** Furthermore, with regard to the highest level of compliance by B3 with international rules relating to the recovery plan, the Recovery of FMIs document sets forth, in its executive summary, that a CCP should have the following in its recovery plan:
- (i) Tools, established in a regulation, that fully allocate through loss allocation based on of the participants' positions, for example, any definitive losses caused by a participant's default not covered otherwise;

- (ii) Tools, established in a regulation, that fully allocate any liquidity shortfalls, whether or not caused by the default of a CCP participant and not covered by the available funds, whereby such tools should include, as necessary, funding by participants to whom the funds are owed; and
  - (iii) Tools to replenish any financial funds it can employ in a stress event, whereby such tools may include fund collecting from its participants through cash calls and obtaining additional equity.
- 3.4** Liquidity losses or deficiencies to which the scenarios leading to the recovery plan activation refer will ultimately be allocated in some way to shareholders, participants and any other creditors. If recovery plan execution proves unsatisfactory, losses will ultimately be charged by the applicable resolution regime, as the case may be. Therefore, it is essential that the recovery plan is designed to fully allocate liquidity losses and shortfalls. In addition, it should be clarified that B3's recovery plan is based on the hypothesis that public funds are not available to maintain B3's feasibility.
- 3.5** With regard to the increase of participants' required regulatory capital, resulting from the cash call provision, this is an unjustifiable consequence. Since the cash call tool is set out in the Recovery of FMIs document and is present in the recovery plans of most relevant CCPs around the world, such regulatory capital increase affects all CCP participants. Any expenditure of funds in the cash call itself and the regulatory capital are the result of the benefit of existence of the recovery plan and its good execution, ensuring the maintenance of the CCP service.
- 3.6** As set out in the following topics and with the aim of promoting a better design for the risk to which institutions will be exposed, B3 has established a limit for the total amount of funds deposited by the non-defaulting CM over a given period of time in the case of a cash call.

**Payment of cash call by non-defaulting CMs (cash call)**

**3.7** Cash deposit by non-defaulting CMs is due whenever:

- (i) A CM is declared in default; and
- (ii) The respective clearinghouse's safeguard structure is insufficient to cover the closing cost of the defaulting CM's portfolio, leading to recovery plan activation; and
- (iii) During the recovery plan execution, B3 decides to apply the cash call tool.

The amounts deposited by CMs are not a contribution to the respective clearinghouse's default fund and are, therefore, not the same as the clearinghouse's safeguard structure. The only relationship between cash call and default fund is the amount of the limit applicable to the cash call, defined as "n" times the amount of the contribution to the default fund. The definition of such limit based on the default fund allows CMs to control their cash call exposure by controlling the risk such CMs represent to the clearinghouse, as this risk defines the amount of their contribution to the fund.

**3.8** Given the comments received in the public consultation, to reduce the limit of the non-defaulting CM's potential obligation as a result of the cash call, B3 decided to set forth an additional limit to the limit of twice the amount of the non-defaulting CM's contribution to the default fund for each plan execution. This already excludes the possibility of imposing unlimited obligations on the CM. Such new limit, of the same type as the existing limit for replenishment of the default fund, establishes that, regardless of the amount of times the recovery plan is executed, the total amount deposited by the CM in any twenty (20) consecutive business day period, taking into account all cash calls made cumulatively, is limited to eight (8) times the amount of the contribution required from the CM to the default fund. Again, this limit for the total funds called via cash call during a given period did not exist in the drafts originally submitted to public consultation, and its inclusion resulted from the comments received. To include this new limit, B3 complemented the wording of the B3



Clearinghouse Rules, the B3 Clearinghouse Risk Management Manual, the B3 Foreign Exchange Clearinghouse Rulebook and the B3 Foreign Exchange Clearinghouse Risk Management Manual.

- 3.9** The limit for fund deposits by a non-defaulting CM, included in Section 1.8 of the B3 Clearinghouse Risk Management Manual, equal to twice the contribution to the default fund, applies each time the recovery plan is activated. Below are two examples to clarify this limit, as well as an example also covering the eight-time limit of the contribution in any 20 business day period:

Example 1: A non-defaulting CM whose contribution required for the default fund is BRL1,000,000.00. If, during the recovery plan execution, B3 adopts a cash call 5 times, the sum of the amounts called from that CM in those 5 times shall not exceed BRL2,000,000.00 (twice the amount of their contribution). In this example, the first cash call could be BRL1,000,000.00, followed by 4 cash calls of BRL250,000.00 each.

Example 2: A non-defaulting CM whose contribution required for the default fund is BRL1,000,000.00. The recovery plan was executed 3 times as a result of 3 default events from CMs. Given the limit applicable to each plan execution, in each of them the CM could be called to deposit a maximum of BRL2,000,000.00. Therefore, considering the three plan executions, the sum of the amounts called would not exceed BRL 6,000,000.00.

Example 3: A non-defaulting CM whose contribution required for the default fund is BRL1,000,000.00. The recovery plan was executed 5 times as a result of 5 CM default events in a 20 business day period. During that period, the sum of all the amounts called from the non-defaulting CM considering all 5 plan executions, could not exceed BRL8,000,000.00. Thus, if in each of the first 4 plan executions B3 had required from the non-defaulting MC the maximum amount of BRL2,000,000.00, it could not call



any amount in the 5<sup>th</sup> plan execution. In another scenario, if in each of the first 4 plan executions B3 had requested from the non-defaulting CM BRL1,200,000.00, in the 5<sup>th</sup> plan execution it could still require a deposit of BRL2,000,000.00, totaling BRL6,800,000.00, which is lower than the limit of BRL8,000,000.00 over the 20-day period.

- 3.10** With regard to the liability limit of the non-defaulting CM, it must be assumed that the recovery plan will not be activated indefinitely, as the CCP has a limited quantity of CMs and the defaulting CM ceases to act as CM. Therefore, considering the limit for the amount required via cash call for each recovery plan activation (twice the default fund), the liability of the non-defaulting CM is limited to the product of the limit amount by the quantity of other CMs. Although the result of this product is high, it is not right to say it is unlimited. Furthermore, the result must be minimized, considering the implausibility of the scenario to which it corresponds, i.e. default of all CMs leading to recovery plan activation.
- 3.11** The possibility of using a cash call is an incentive for participants to monitor the CCP risk management, as well as their own individual risks within the system, and to plan their obligations if they materialize.
- 3.12** As to the reimbursement of deposits, we understand that the provision that B3 will pay for the reimbursement is equivalent to the provision that the CM will receive.
- 3.13** Also with regard to the deposit reimbursement, it should be clarified that this applies exclusively to the amounts received from CMs as a result of the cash call and must not be mistaken for the CM contributions to the safeguard structure of the clearinghouses, which can be withdrawn in accordance with the criteria set out in the clearinghouses' risk management manuals.
- 3.14** With regard to B3's obligation to participate in the recovery plan, it should be noted that the measures and procedures proposed in the drafts of B3's regulations resulting from the public consultation are only those that impact the participants. Their adoption occurs upon consumption of B3's own funds and

upon the adoption of recovery tools that exclusively impact B3, such as debt issuance and B3's free cash consumption.

**3.15** B3 explains that the recovery plan, which is activated by the materialization of shortfall of funds scenario due to a default before a clearinghouse, will be closed :

- (i) When the shortfall of funds is remedied; or
- (ii) After the measures provided for in the plan are exhausted; or
- (iii) By determination of the resolution authority,

whichever occurs first. B3 understands that there is no need to forecast such situations in its regulations, as they are natural consequences of the effectiveness or lack of it of the measures adopted.

**3.16 Deferral/change of settlement window date** As mentioned in the topic **Impact on capital allocation from participants subject to prudential rules** in this Section 3, B3 understands that the proposed regulatory amendments submitted for public consultation do not constitute a breach by B3 of the principles established in the PFMI.

**3.17** The use of the settlement date postponement tool for creditor CMs' multilateral net balances does not imply the suspension of trading or registration of lending transactions and centrally-cleared OTC derivative transactions, given that such suspension would prevent participants from carrying out trades intended to close out positions and reduce risk with consequent systemic risk increase.

**3.18** As indicated in Recovery of FMIs:

- (a) For a CCP to recover when losses arising from default exceed its safeguard structure and, therefore, the liability of the CCP (multilateral net balances due to creditor CMs) outweighs the funds available to pay for it, two tools, in principle, apply: (i) Collection of additional funds and (ii) Reduction of the CCP liability; and



(b) The CCP should have in its recovery plan tools established in a regulation that fully allocate any liquidity shortfall, whether or not caused by the default of a CCP participant and not covered by the available funds, whereby such tools should include, as necessary, funding by participants to whom the funds are due, including uncollateralized funding.

**3.19** Although settlement postponement is a tool for collecting additional funds and has the same effect as uncollateralized funding, set forth in the Recovery of FMI's document as indicated above, given the comments received from the public consultation, B3 will broaden discussion with the market on this topic and decided to withdraw for now from the B3 Clearinghouse Rules and B3 Foreign Exchange Clearinghouse Rulebook the provisions on deferral/change of the settlement date in the event of recovery plan activation.

**3.20** B3 emphasizes that the adoption of tools with an impact on participants occurs upon consumption of B3's own tools and upon the adoption of tools that exclusively impact B3, such as debt issuance and free cash consumption.

**3.21** Regarding the adoption of VMGH and PTU mechanisms, in the case of B3 Clearinghouse, in lieu of the settlement date postponement it is understood that both mechanisms proposed are not tools for obtaining financial funds and, therefore, it is not possible to establish equivalence with the settlement date deferral tool.

**Indexation of amounts to settle at a date later than the forecast date and of amounts received from a non-defaulting CM when requesting a cash deposit (cash call)**

**3.22** It is incumbent upon B3 to bear the indexation costs at the DI rate of the cash call to be refunded. B3 Clearinghouse Rules and B3 Foreign Exchange Clearinghouse Rulebook have been supplemented in order to clarify this point.



### **Use of B3's own funds dedicated to one clearinghouse's safeguard structure for covering the failure of another clearinghouse**

**3.23** Given the comments received, the possibility of using B3's contribution to the default fund of one clearinghouse to cover the other clearinghouse's fund deficit was excluded from the drafts of the B3 Clearinghouse Rules and B3 Foreign Exchange Clearinghouse Rulebook. Although the seniority of participants' contributions is not affected, the use of B3's contribution to the default fund of a clearinghouse would potentially increase the likelihood of mutualization of losses among participants in that clearinghouse in the event of default before the replacement of B3's funds.

### **Cancellation of access authorization**

**3.24** B3's access rules already provide for the possibility for CMs to request cancellation of its access authorization. Therefore, B3 deems to be unnecessary to add a provision for the possibility for CMs to request access authorization cancellation specifically in the event of recovery plan activation.

**3.25** Accepting the suggestion received, B3 included a provision in the clearinghouses' drafts in that the cancellation of CMs' access authorization does not affect B3's obligation to reimburse the funds received from CMs under the recovery plan.

**3.26** The exclusion of the provision in B3's Access Manual that B3 may, upon a well-founded request, establish additional conditions to cancel access authorization was the subject-matter of an authorization request made in 2019 to BCB and CVM. It was then approved by CVM and appraised by BCB in the second half of 2021. The new version of the B3 Access Manual including such update was released on October 22, 2021.

### **Activation of the recovery plan, communication and procedures**

- 3.27** The decision to adopt measures resulting from the recovery plan activation should be promptly communicated to BCB and CVM, as well as to the B3 Board of Directors and to the Risk and Financial Committee. B3 believes that the approval of the recovery plan by the regulator, including triggers and plan activation procedures, exempts the regulator from authorizing each recovery plan execution.
- 3.28** B3 is responsible for providing all necessary information related to the recovery plan activation to participants of the FMIs managed by B3, whose communication will be initiated immediately.
- 3.29** The communication on the period during which the proposed actions should be taken is an important aspect of transparency. Considering that the materialization of one or more scenarios requires timely action from B3, for the recovery strategies to be effective, the communication should be initiated immediately upon identification of the scenario materialization and the achievement of the critical plan activation trigger levels, as well as all relevant facts throughout the plan execution process.
- 3.30** With regard to the description of the measures to be adopted by B3 in the event of recovery plan activation, B3 clarifies that the clearinghouses will provide timely information across all settlement chain levels.
- 3.31** The recovery plan activation triggers are not included in the regulations, since they should provide for the applicable rules and procedures impacting participants in the event of plan activation.
- 3.32** As to the pre-set order provision (from the least to the most onerous from the perspective of non-defaulting CMs) for execution of recovery tools, even if a sequential execution is established, it is incumbent upon B3 to decide to run recovery tools in a certain order or to decide not to run one or more of the provided tools once the recovery plan is activated. Such balance between automatic application of recovery tools and FMI's judgment is one of the guidelines set out in the Recovery of FMIs report.

### **Effects of the recovery plan on a potential insolvency scenario at B3**

**3.33** As previously mentioned in this section with regard to the occurrence of an insolvency, bankruptcy or any similar event in relation to B3, although the B3 Clearinghouse Rules and the B3 Foreign Exchange Clearinghouse Rulebook already provide for rules and procedures for such situation, B3 accepted a proposal to complement the regulations so as to explain the inclusion of the amount due by CCP to CMs as a result of the cash call, when calculating the multilateral net settlement.

### **Competitive impact analysis**

**3.34** Regulatory changes apply uniformly to the entire market and do not interfere with new participants' access.

### **Regulatory complexity**

**3.35** The proposed amendments herein were intended to maintain, in all amended regulations whenever possible and appropriate, uniformity in the text implemented as a result of the adjustments to the recovery plan, with due regard for the characteristics of each regulation and the respective FMI.

**3.36** Moreover, as shown in previous topics of this report, B3 has implemented additional amendments to the regulations drafts intended to clarify doubts, complement definitions and set limits according to comments and contributions submitted during the public consultation.

#### **4. CONCLUSIONS**

- 4.1** The public consultation process contributed to the reflection on the proposed amendments and to the implementation of additional amendments intended to clarify comments sent to B3 throughout the process.
- 4.2** At the end of the public consultation process, on December 15, 2021, B3 submitted the regulation drafts for BCB and CVM assessment, as set out in Circular Letter BCB 3,057, dated August 31, 2001, and CVM Instruction 461, dated October 23, 2007. The proposed amendments will be implemented only upon said regulators' approval of the proposed amendments.