

September 1, 2017

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## **C I R C U L A R   L E T T E R**

B3 Market Participants – BM&FBOVESPA Segment

Re: **BM&FBOVESPA Clearinghouse – Acceptance of Collateral Abroad.**

CMN Resolution #4569, dated May 26, 2017 (CMN Resolution 4569), regulated the deposit of collateral abroad for the transactions executed by nonresident investors in the Brazilian financial and capital markets carried out within the scope of the clearinghouses and clearing and settlement service providers authorized by the Central Bank of Brazil (BCB).

In Circular #3838, dated June 27, 2017 (Circular 3838), BCB established that, given the haircuts associated with market prices, the total amount of assets liable to be held abroad to meet domestic collateral requirements cannot exceed eight percent (8%) of the aggregate margin value required by the relevant clearing and settlement system.

In compliance with Circular 3838, this Circular Letter establishes the operation for posting collateral abroad in favor of the BM&FBOVESPA Clearinghouse (Clearinghouse) by nonresident investors.

For the purposes of this Circular Letter, nonresident investor (NRI) means the investor that meets the criteria described under section 6.1 of Chapter 6 of the Clearinghouse Risk Management Manual.

In order for any NRI to post collateral abroad, it is necessary that supplementary registration information associated with posting collateral abroad be duly filed with the B3 Participant Registration Center through the relevant participant, according to the procedure described in **Annex I** of this Circular Letter.

For the intermediation of transactions of NRIs intending to post collateral abroad, the minimum content established by B3 in this Circular Letter must be contemplated by the relevant participant (i) in the agreement entered into with the foreign intermediary institution, when the simplified registration form is used; and (ii) in the corresponding intermediation agreement, or equivalent instrument.

As a way to ensure compliance with the limit established in Circular 3838 (global limit), B3 will establish individual limits for the interested NRIs to post collateral abroad, according to the procedure presented below.

In order to provide NRIs with predictability in connection with posting collateral abroad, the process for granting limits will follow **quarterly cycles**, which will coincide with the quarters of the calendar year. The **systematization** of each quarterly cycle will follow four stages:

- The NRIs whose supplemental registration data have been properly filed may submit to the Clearinghouse, through the relevant participants, a request for limit reservation (the haircut value of collateral to be posted abroad in the subsequent cycle). The reservation request procedure is described in **Annex II**.
- Pursuant to the definitions and criteria described in **Item 2**, the Clearinghouse will establish individual limits for the requesting NRIs in the subsequent cycle and notify the relevant participants of the values thereof.
- During the cycle, the Clearinghouse will authorize collateral to be posted abroad by the relevant NRI upon verification of the limit availability and

also of further rules and conditions established in the Clearinghouse Risk Management Manual for collateral posting in general.

- Any passive nonadherence to the limit, meaning a nonadherence caused by an increase in the haircut value of collateral or by a reduction in the aggregate margin required by the Clearinghouse, must be corrected until the beginning of the next cycle. The process for restoring limits is described in **Item 4**.

#### **1. Assignment of individual limits in absolute and relative values and global limit monitoring**

The total amount of collateral that can be kept abroad for meeting the requirements of Circular 3838 is given by:

$$GL_t = 0.08 \times RM_t \geq \sum_{c=1}^N OC_{c,t} \quad (1)$$

Where:

$GL_t$  = the Clearinghouse's global limit in Brazilian reais for posting collateral on date  $t$  ;

$RM_t$  = total margin required by the Clearinghouse in Brazilian reais on date  $t$  , as published daily by B3;

$OC_{c,t}$  = the haircut value in Brazilian reais of the international assets posted as collateral by NRI  $c$  on date  $t$  ;

$N$  = the number of NRIs with international assets posted as collateral.

For each investor requesting a limit for posting collateral abroad, the Clearinghouse will establish (i) a financial limit in Brazilian reais, or (ii) a limit as

a percentage rate of the total margin required in Brazilian reais by the Clearinghouse ( $RM$ ).

The investors requiring limits that are considered to be relatively small by the Clearinghouse, due to the available global limit, will be granted a financial limit in Brazilian reais for greater operational convenience.

For limit definition purposes, let  $FC$  be the set of all the investors that are granted limits in absolute values and let  $PC$  be the set of all the investors that are granted limits as a percentage rate of the total margin required by the Clearinghouse. The sum of the limits assigned to both  $FC$  and  $PC$  investors must be equal to or less than the global limit, given by  $0.08 \times RM_t$ .

Consider  $LF_i$  as the limit in Brazilian reais established for investor  $i$  belonging to set  $FC$ . The total limit established for the investors belonging to set  $FC$  is given by:

$$FL = \sum_{i \in FC} FL_i \quad (2)$$

Because  $FL$  is one of the portions of the global limit, it must meet inequation (3):

$$FL \leq GL_t \quad (3)$$

Consider  $PL_j$  as the positive percentage limit established for investor  $j$  belonging to set  $PC$ . The sum of the percentage limits assigned to the investors belonging to set  $PC$  must be equal to or less than the unit:

$$\sum_{j \in PC} PL_j \leq 1 \quad (4)$$

Each day, the percentage limit assigned to investor  $j$  belonging to set  $PC$  can be transformed into a financial value through equation (5).

$$\text{Limit in BRL for investor } j \text{ on date } t = PL_j \times (0.08 \times RM_t - FL) \quad (5)$$

## 2. Criteria utilized to define individual limits

The Clearinghouse will grant individual limits according to the following factors: (i) the restriction imposed by the global limit; (ii) the liquidity resources deriving from the Clearinghouse liquidity risk mitigation mechanisms; (iii) the requests submitted by NRIs to reserve individual limits; (iv) the historical margin required from the NRIs; (v) the **actual use** of the individual limits granted to NRIs in previous cycles; (vi) the criteria defined by B3 aimed at promoting the liquidity of certain products and facilitating the entry of new NRIs into the domestic market, among other purposes.

B3 may modify such criteria over time, in order to optimize the use of the available global limit.

The grant of individual limits to NRIs will take into account the reservation requests made by **all** the intermediaries responsible for each NRI. The individual limit granted to each NRI will be divided into individual limits assigned to the NRI under the responsibility of the intermediaries which requested the relevant limits. This division will be performed in proportion to the limit requested by each participant responsible for the NRI.

In order to ensure its proper functioning and mitigate risks, the Clearinghouse may, at any time and at its sole discretion, reduce the limit granted to any NRI by notifying the relevant participant.

By taking into account the previously-described factors, the Clearinghouse will divide the NRIs into groups and the global limit into limits for each group. Table 1 illustrates the groups considered.

**Table 1: Example of NRI groups**

<b>Group</b>	<b>Purpose</b>
NRIs trading under CMN Resolution #2687	Such NRIs must mandatorily post collateral denominated in US dollars
Fostering liquidity providers	Encourage increased liquidity in selected products
Investors with small limits	Encourage the opening of new NRI accounts and meet the demands of NRIs with little limit use
Transient limit for NRIs in BOVESPA segment	Dilute over time the impacts of model changes on NRIs that already deposit collateral abroad in the BOVESPA segment
Recurring use	Further cases

The Clearinghouse will establish individual NRI limits from the limits granted to the relevant groups and from the above-described individual limit grant factors (i) thru (vi).

If a NRI realizes that it will not use all or part of its limit during the cycle, it must promptly notify the Clearinghouse through the relevant participant, so that its limit can be redistributed.

The measurement of the degree of use of collateral posted abroad will be made based on the concept of appropriated collateral. An asset deposited abroad will be considered as appropriated only if the withdrawal thereof is not allowed by the Clearinghouse, pursuant to the rules set forth in its Risk Management Manual.

The Clearinghouse may impose a fine on the NRI that does not use the individual limit granted to it in a certain cycle in an effective manner, provided the Clearinghouse informs the participants about the rules for determining the amounts of the fine prior to the beginning of the relevant cycle.

### 3. Operating procedure for the acceptance of collateral posted abroad

At each new request for collateral to be posted abroad submitted by the NRI through the relevant participant, the Clearinghouse will assess the NRI's compliance with the individual NRI limit valid for the current cycle, as follows:

(a) For the investors belonging to set  $FC$ :

$$OC_{i,t} + HOCR_{i,t} \leq FL_i^k \quad (6)$$

Where:

$OC_{i,t}$  = the haircut value in Brazilian reals of the international assets posted as collateral by investor  $i$  on date  $t$ , as calculated by the CORE methodology;

$HOCR_{i,t}$  = the haircut value in Brazilian reals of the new request for posting collateral abroad submitted by the participant responsible for NRI  $i$  to the Clearinghouse collateral system on date  $t$ , pending review by the Clearinghouse;

$FL_i^k$  = the limit in financial value assigned to investor  $i$  belonging to set  $FC$  valid for cycle  $k$ .

(b) For the investors belonging to set  $PC$ :

$$OC_{j,t} + HO CR_{j,t} \leq PL_j^k \times (0.08 \times RM_t - FL^k) \quad (7)$$

Where:

$PL_j^k$  = the percentage rate of the total required margin which can be deposited by NRI  $j$  belonging to set  $PC$  during cycle  $k$ ;

$FL^k$  = the sum of the individual limits of the NRIs belonging to set  $PC$  valid for cycle  $k$ .

If the limit for posting collateral abroad is met, the total collateral in the new deposit request will be accepted and valued according to the unit price (PU) calculated by the CORE methodology. If said limit is not met, the deposit can still be made, but a unit price, at a value equal to zero, will be assigned to the portion of the deposit that exceeds the limit.

As soon as collateral is posted, the Clearinghouse will also monitor, whenever applicable, the other limits and criteria for posting collateral established in its Risk Management Manual.

#### **4. Restoring limits in the event of passive nonadherence**

A passive nonadherence of the individual NRI limit or of the Clearinghouse's global limit may occur in the following situations: (i) reduction in the aggregate margin required by the Clearinghouse and (ii) increase in the haircut unit prices in Brazilian reals of the international assets deposited as collateral.

The Clearinghouse will assess daily the conformity of the aggregate haircut value of collateral posted overseas with the ten percent (10%) limit of the aggregate required margin. Should this limit be violated, the haircut values in Brazilian reals of collateral posted abroad by each NRI will be adjusted, on the same date of violation, to the corresponding individual limits in force. In further cases of passive



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nonadherence (global value between 8% and 10% and/or individual limits above the individual limit assigned to the relevant NRI), the limits will be restored on the first business day of the next quarterly cycle.

Whenever a passive nonadherence occurs, the excess amount will be valued with a unit price equal to zero and, if necessary, collateral will be required to be posted in local currency, which requirement might be met by eligible assets denominated in Brazilian reals, pursuant to subsection 6.1.1 of Chapter 6 of the Clearinghouse Risk Management Manual, following the procedures currently adopted by the Clearinghouse.

Further information may be obtained from the BM&FBOVESPA Clearinghouse Collateral Management area by telephone at +55 11 2565-4845.

Cícero Augusto Vieira Neto  
Chief Operating Officer

José Ribeiro de Andrade  
Chief Product and Client Officer

## **Annex I to Circular Letter 011/2017-DO**

### **Supplementary Registration Information for the Acceptance of Collateral Abroad**

In order to allow for collateral to be posted overseas by a nonresident investor in favor of the Clearinghouse, it will be necessary for the relevant participant to supplement the registration data of the concerned nonresident investor, so that the later can be identified under the categories described in “Table 6.1 - Types of nonresident investors by home jurisdiction authorized to deposit assets abroad as collateral” included in subsection 6.1.1 of the Clearinghouse Risk Management Manual.

Supplemental registration data must be provided by submitting a request to the B3 Participant Registration Center.

The application form and related filling guidelines are available at [www.bmfbovespa.com.br](http://www.bmfbovespa.com.br) (Portuguese version only), *Serviços, Central do participante, Documentação Cadastral, Câmara BM&FBOVESPA, Kit Garantias no Exterior – Informações cadastrais complementares.*

Requests must be delivered to the following address:

Praça Antonio Prado, 48, 4<sup>o</sup> andar  
São Paulo, SP 01010-901  
Brazil

Further information on the procedure for supplementing registration data may be obtained from the Participant Registration Center, by telephone at +55 11 2565-5621 or by e-mail at [cadastro@bvmf.com.br](mailto:cadastro@bvmf.com.br).

## Annex II to Circular Letter 011/2017-DO

### Procedure for Requesting Individual Limit Reservation for Posting Collateral Abroad

The requests for individual limit reservation must be in multiples of BRL1 million and must be submitted to B3 in writing or via system (to be informed) by the participants responsible for the relevant NRIs within the time frames indicated in Table 2.

**Table 2: Schedule of cycles**

Cycle	Deadline for submitting reservation requests	Period of validity of individual limits granted
1	By 09/15/2017	4 <sup>th</sup> quarter 2017
2	By 12/15/2017	1 <sup>st</sup> quarter 2018
3	By 03/15/2018	2 <sup>nd</sup> quarter 2018
4	By 06/15/2018	3 <sup>rd</sup> quarter 2018
5	By 09/15/2018	4 <sup>th</sup> quarter 2018

Requests must be sent to the Collateral Management area (*Superintendência de Administração de Colaterais*) at the following address:

B3 S.A. – Brasil, Bolsa, Balcão  
 A/C Superintendência de Administração de Colaterais  
 Praça Antonio Prado, 48, 4º andar  
 São Paulo, SP 01010-901  
 Brazil

Further information may be obtained from the Risk Management Department, Collateral Management area, by telephone at +55 11 2565-4845.