$[B]^3$ BRASIL BOLSA BALCÃO

T+2 SETTLEMENT CYCLE

TECHNICAL PRESENTATION

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory authorities

SCHEDULE

MORNING

09:00 OPENING

09:15 PANEL 1:
The main benefits of T+2 and iMercado for the local industry and how resident investor flows could be affected

10:30 COFFEE BREAK

10:45 PANEL 2:
Opportunities for nonresident investors' flows

12:15 LUNCH

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory authorities

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SCHEDULE
AFTERNOON

01:30 | **TECHNICAL PRESENTATIONS**
- T+2
- •iMERCADO

03:30 | **COFFEE BREAK**

03:45 | **TECHNICAL PRESENTATION**
- Allocation by average price

04:55 | **WRAP-UP**

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory authorities

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PROJECT T+2

INTRODUCTION

CONTEXT

A. The 2008 financial crisis led to studies into shortening the settlement cycle to T+2 in the world's largest economies.

B. Studies conducted by consultants in Europe and the U.S. explored opportunities to increase efficiency in post-trading processes, such as trade confirmation and pre-matching, which could reduce the settlement cycle from T+3 to T +2.

C. In the Brazilian model, trades are already locked in for settlement and there is no confirmation stage. However, the process of customer identification (allocation), custodian transfer authorization and pre-matching occurs on T+1 and T+2, leading to T+3 settlement.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory authorities
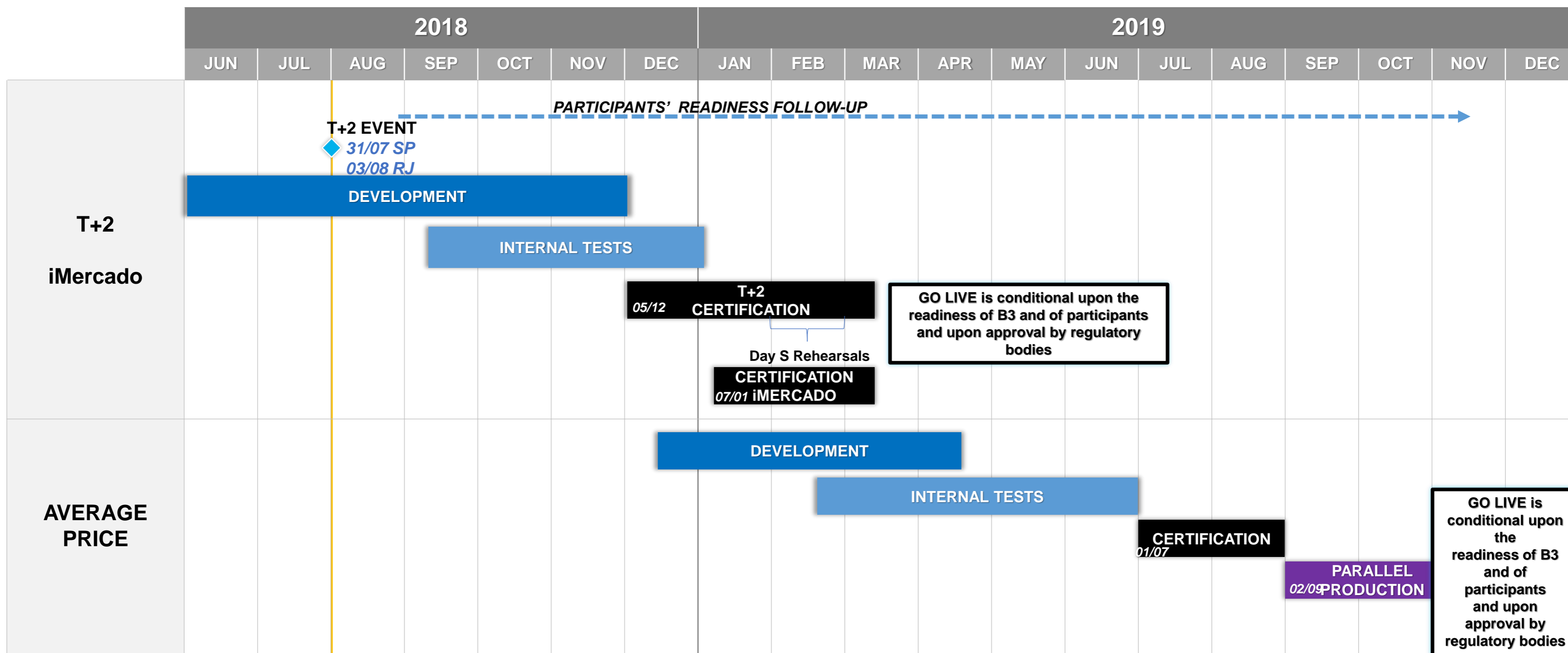
INTRODUCTION

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CONTEXT (CONTINUED)

D. To discuss this issue and begin the Brazilian capital market's migration process, Project T+2 was created and the project's Executive Group was formed made up of members of the Post-Trade Advisory Committee.

E. The first stage of the Project consisted of drawing up a business model with the creation of Working Groups, who addressed specific themes:
    1. Windows and Flows
    2. Allocation, Pre-Matching and FX
    3. Public Distribution Offers
    4. Depository and Corporate Actions

F. There was then validation and disclosure of the model, followed by planning, along with participants, of the next stages of the project, such as development, tests and implementation.

SCHEDULE

LUNCH

T+2
iMercado

T+2
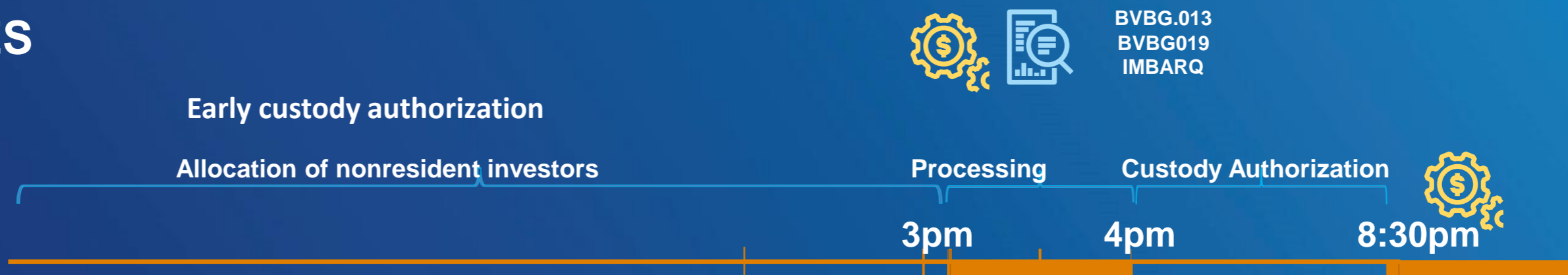
Scope by Process

T+2

ALLOCATION, PRE-MATCHING AND CUSTODY TRANSFER AUTHORIZATION

[B]³ BRASIL BOLSA BALCÃO

CUSTODY TRANSFER ALLOCATION, PRE-MATCHING AND AUTHORIZATION

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1. The current **customer allocation** deadlines and times remain **unchanged: 8:30 p.m. of T+0** for local investors and **3:00 p.m. of T+1** for nonresidents.

2. Please note the importance of **parallelizing** the **allocation and pre-matching** processes by participants to enable correction of errors during allocation. **iMercado** flows are used for allocation, matching, pre-matching and registration form, as a means to support parallelization and process optimization.

3. Following T+1 allocation, there will be **processing** between **3:00 p.m. and 4:00 p.m.**, for the generation of files BVBG019, BVBG013 and IMBARQ005.

4. **Authorization** of custody shall occur as of **4:00 p.m. of T+1 up until 8:30 p.m**. There will also be a timetable for the treatment of **exceptions** from **7:00 a.m. to 9:30 a.m. of T+2**.

CUSTODY TRANSFER ALLOCATION, PRE-MATCHING AND AUTHORIZATION

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5. **Bringing forward** the **custody authorization** process for customers that have already been matched

The custodian can bring forward transmission of authorizations to B3 as of T+0 for customers that have already been matched in the pre-matching stage.

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a. Should the FTP/TP execute a reallocation that has an impact on a settlement instruction previously authorized by the custodian:

   a. The previously-approved debit instructions shall be de-authorized to their full amount, even if due to reallocation there has been an increase or decrease to this previously-authorized amount;

   b. Instructions to credit shall be approved automatically in the new allocated amounts;

   c. Due to reallocation there may be a changeover (netting), for instance an instruction that was originally a debtor becomes a creditor or vice-versa. In this case, the instruction shall comply with the rules described above.

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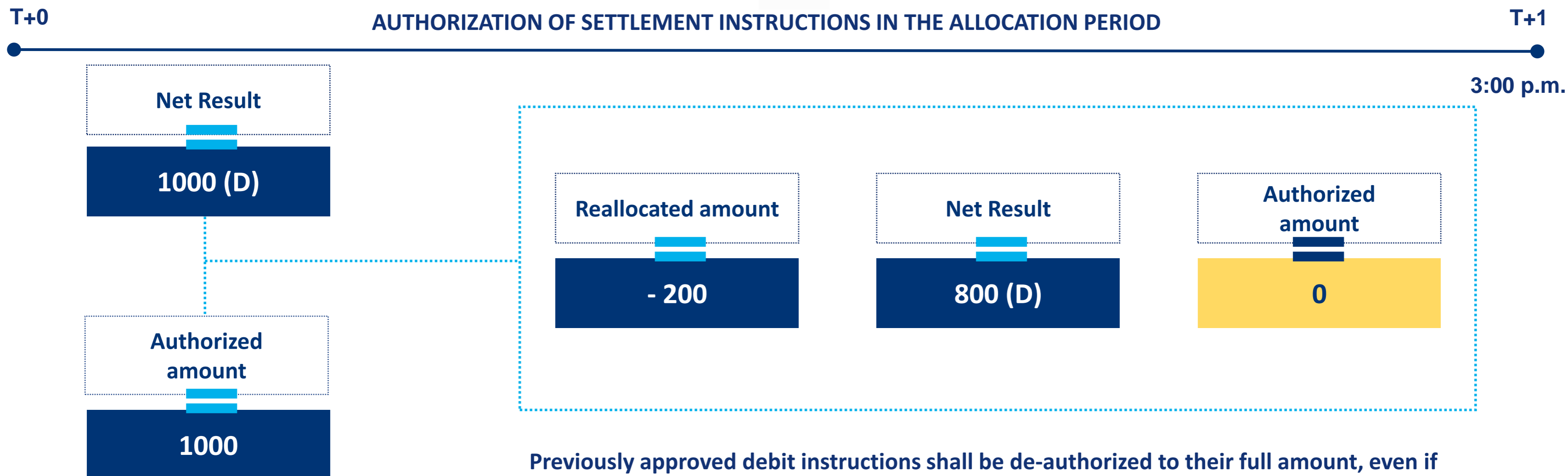**ALOCAÇÃO, PRE-MATCHING E AUTORIZAÇÃO DE MOVIMENTAÇÃO CUSTÓDIA**

5. **Bringing forward the custody authorization process for customers that have already been matched (cont.)**

b. The involved FTL/TP and custody agent will be informed of the granting of authorization during the allocation period, through the BVBG.019 file.

    a. The BVBG.019 file will have the exisitng UpdateType field filled out to identify whether the file is complete (provided at the start of the day or at the end of allocation on T+1) or the update field filled out (due to account change, reallocation at an authorized institution, etc.)

    b. For reconciliation of the executed or altered authorizations, the custodian will:

        a. Request a BVBG.019 file via bvmf.054 message, or;

        b. Await generation of the full BVBG.019 file after the end of the allocation period on T+1, which is provided after intraday processing.
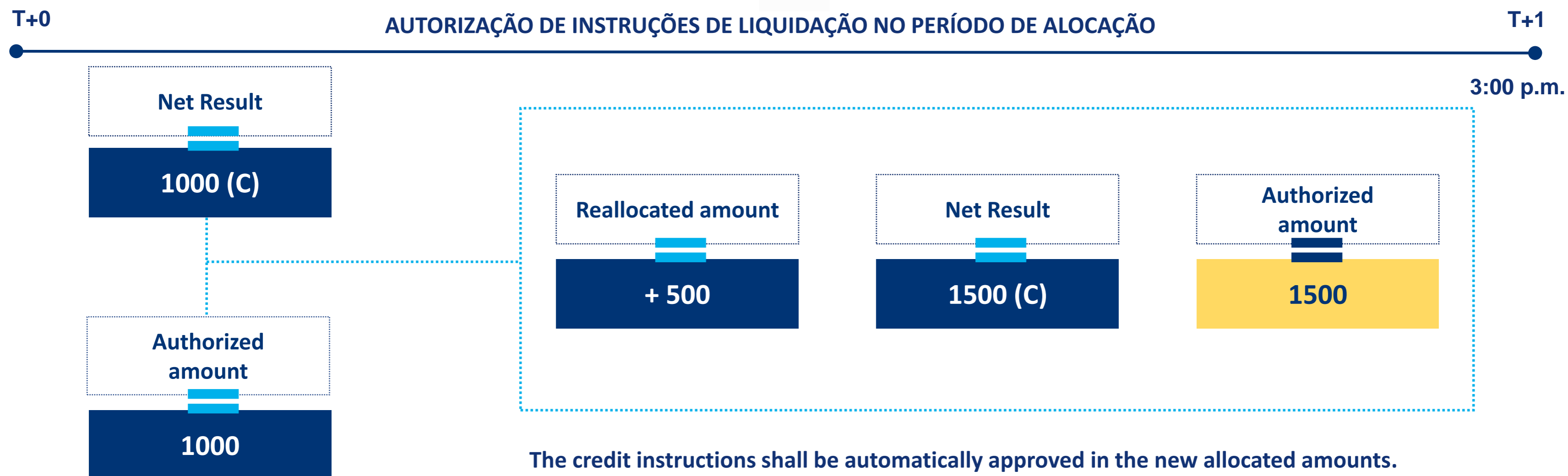
PROJECT T+2: SCOPE BY PROCESS

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CUSTODY TRANSFER ALLOCATION, PRE-MATCHING AND AUTHORIZATION

T+0   **AUTHORIZATION OF SETTLEMENT INSTRUCTIONS IN THE ALLOCATION PERIOD**   T+1

3:00 p.m.

Net Result

1000 (D)

Reallocated amount	Net Result	Authorized amount
- 200	**800 (D)**	**0**

Authorized amount

1000

Previously approved debit instructions shall be de-authorized to their full amount, even if due to reallocation there is an increase or decrease to the previously authorized amount.
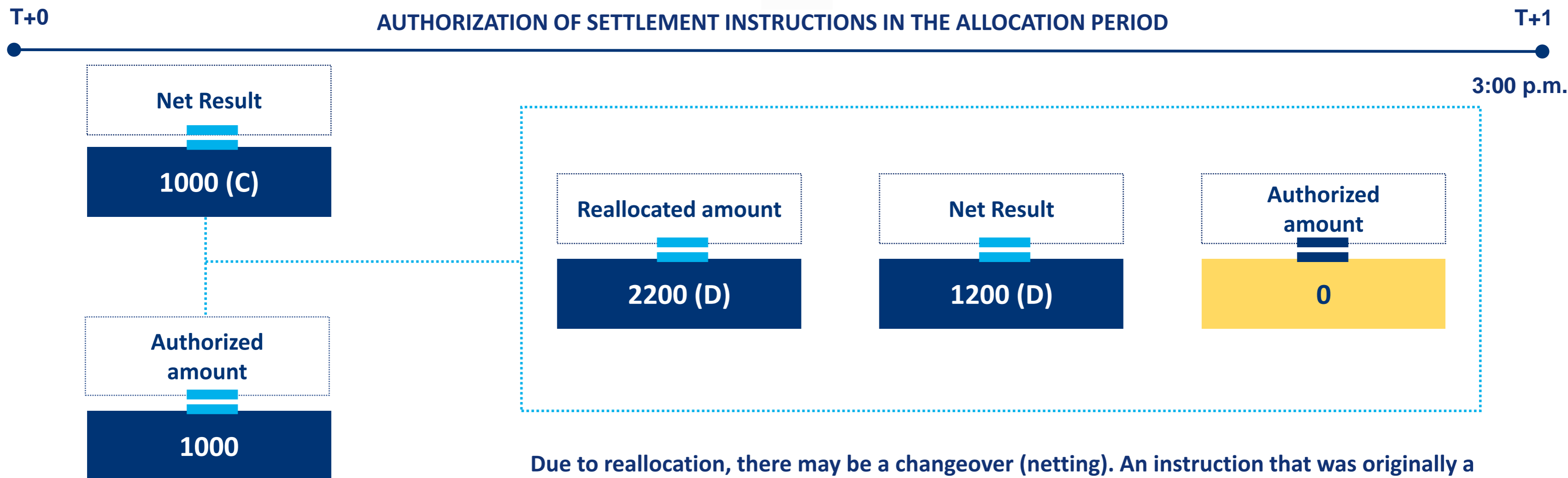
PROJECT T+2: SCOPE BY PROCESS

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CUSTODY TRANSFER ALLOCATION, PRE-MATCHING AND AUTHORIZATION

T+0 — AUTHORIZATION OF SETTLEMENT INSTRUCTIONS IN THE ALLOCATION PERIOD — **T+1**

3:00 p.m.

Net Result
1000 (C)

Authorized amount
1000

Reallocated amount
2200 (D)

Net Result
1200 (D)
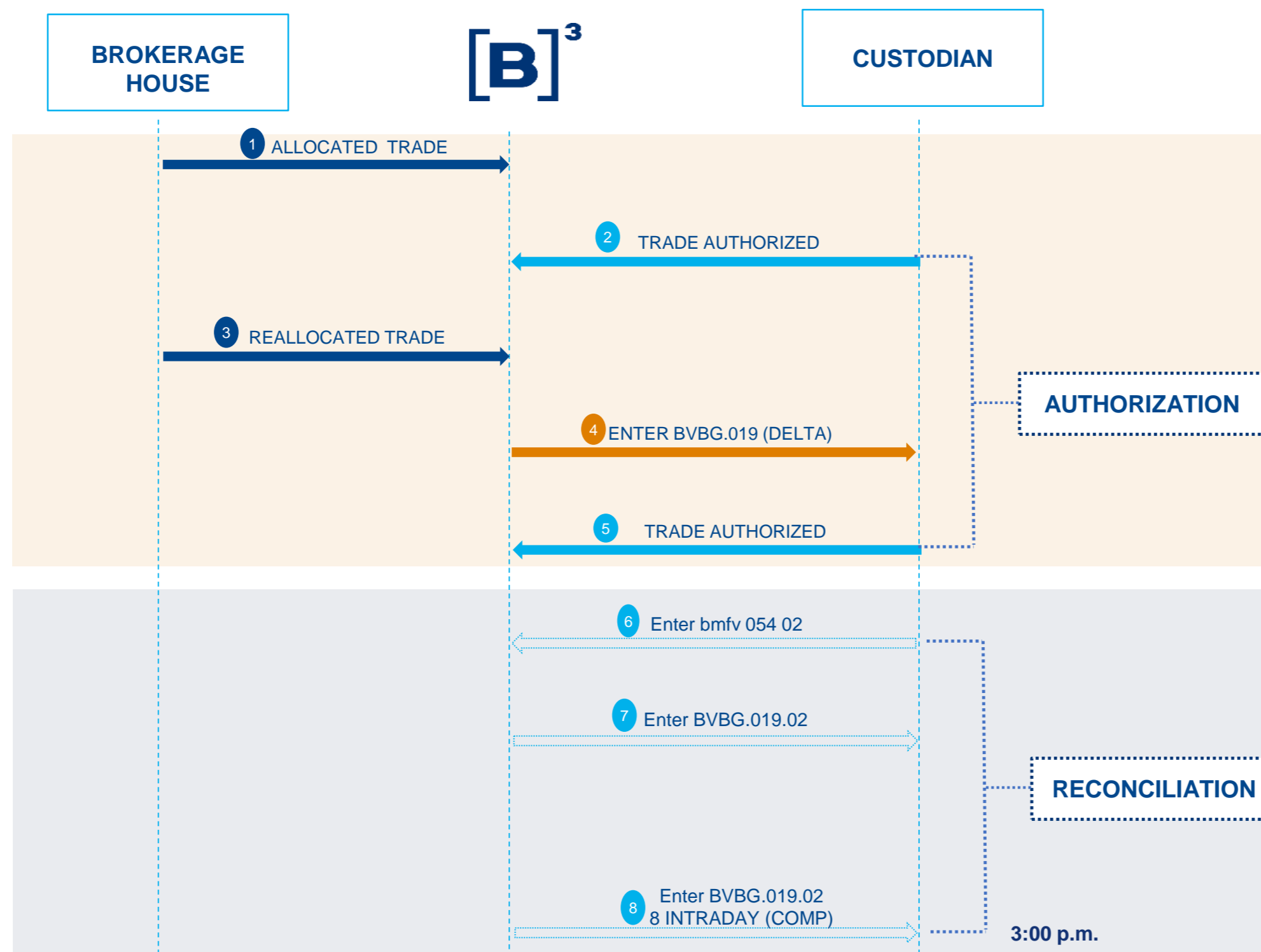
Authorized amount
0

Due to reallocation, there may be a changeover (netting). An instruction that was originally a creditor may become a debtor.
The settlement instruction (debtor), which is updated by reallocation, will have its amount de-authorized.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

PROJECT T+2: SCOPE BY PROCESS

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CUSTODY TRANSFER ALLOCATION, PRE-MATCHING AND AUTHORIZATION

BROKERAGE HOUSE

[B]³

CUSTODIAN

1 ALLOCATED TRADE

2 TRADE AUTHORIZED

3 REALLOCATED TRADE

4 ENTER BVBG.019 (DELTA)

AUTHORIZATION

5 TRADE AUTHORIZED

6 Enter bmfv 054 02

7 Enter BVBG.019.02

RECONCILIATION

Enter BVBG.019.02
8 INTRADAY (COMP)

3:00 p.m.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

T+2

SETTLEMENT

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SETTLEMENT

1. **The settlement process will occur on the second business day after trading (T+2).**

2. **The most important times will be:**

   a. Time limit for exchange of portfolio in instructions by **10:50 a.m. of T+2.**

   b. Securities delivery window starting at **11:00 a.m. of T+2.**

   c. Margin call close at **1:30 p.m.**

   d. Time limit for payment by debtors at **2:50 p.m.** (unchanged).

   e. Window for receipt of cash and securities at **3:50 p.m. of T+2** (unchanged)..

3. **Repurchase deadlines have been changed:**

   a. Buy-in cancellation: **by T+5**

   b. Confirmation of buy-in order: **by T+6**

   c. Buy-in order reversal: **on T+7**

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

SETTLEMENT

4. **Extending the restriction mechanism to include custodians**

    a. The Clearinghouse will consider the custodian in the securities restriction mechanism, allowing it to restrict delivery to an investor who has not honored its payment, respecting the rights restriction hierarchy: Clearinghouse > MC > FTP/TP > CST (custodian)
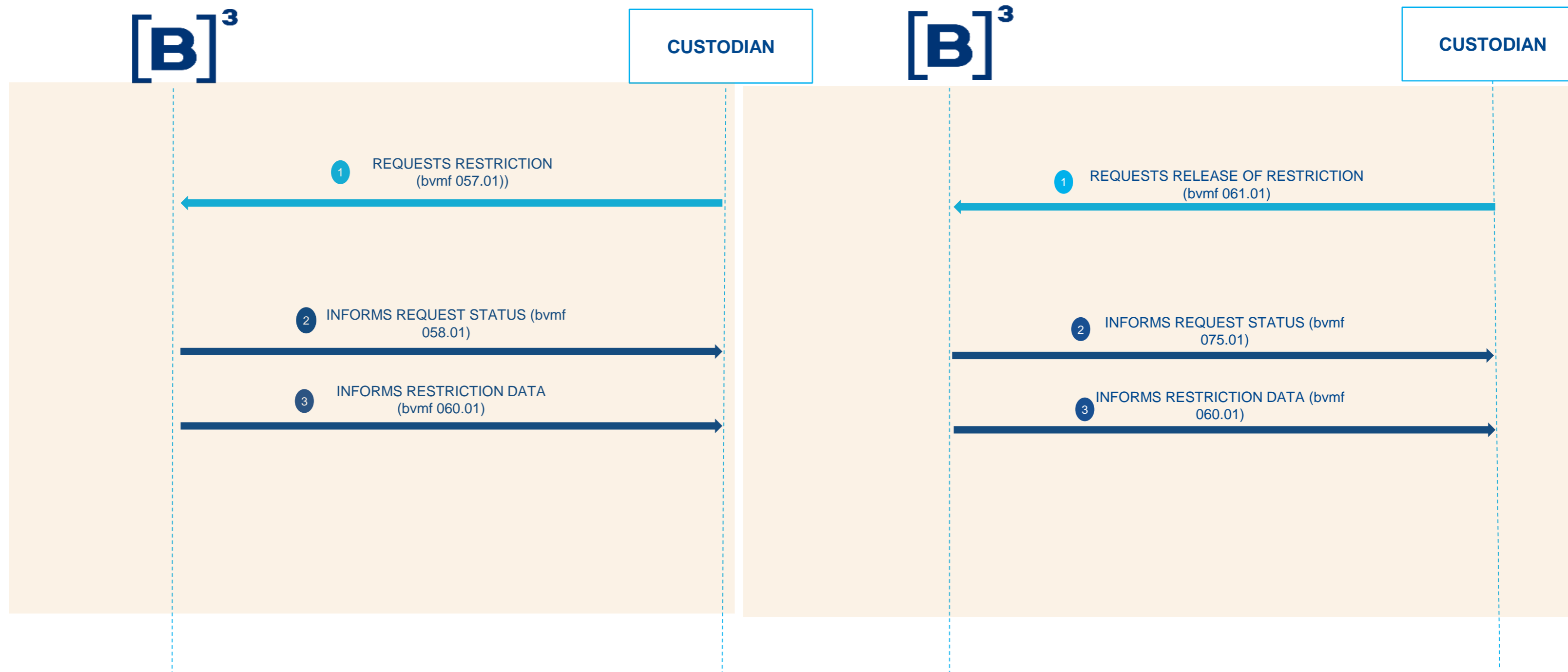
    a. The ACST will execute the restriction by entering the bvmf.057 message, or through the RTC system screen.

    b. Functionality subject to approval by the regulator.

PROJECT T+2: SCOPE BY PROCESS

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SETTLEMENT

Request securities restriction

[B]³   CUSTODIAN

1 REQUESTS RESTRICTION
(bvmf 057.01))

2 INFORMS REQUEST STATUS (bvmf
058.01)

3 INFORMS RESTRICTION DATA
(bvmf 060.01)

Request release of securities restriction

[B]³   CUSTODIAN

1 REQUESTS RELEASE OF RESTRICTION
(bvmf 061.01)

2 INFORMS REQUEST STATUS (bvmf
075.01)

3 INFORMS RESTRICTION DATA (bvmf
060.01)

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

T+2

SECURITIES LENDING AND FORWARD EQUITIES

SECURITIES LENDING

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FORWARD

1. Early settlement of forwards requested by the buyer in the current model can be for T+3, T+2 or T+1. After the cycle has been shortened it will only be possible to request T+2 or T+1.

LENDING

1. The time window to **contract securities lending will not change** when T+2 comes into effect..
    a. *We suggest that the opening of the securities lending process be brought forward by one hour (from 8:00 a.m. to 7:00 a.m.), during the stabilization period*.

2. Lending orders eligible for treatment of defaults must have a maturity greater than or equal to T+7. Currently, the rule only allows orders with maturity starting from T+9.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

PROJECT T+2: SECURITIES LENDING AND FORWARD EQUITIES [B]³ BRASIL BOLSA BALCÃO

SECURITIES LENDING

CONTRACT CANCELLATION, AMENDMENT AND RENEWAL

PROCESS	CURRENT (T+3)	NEW (T+2)
Contract amendment	From **T+1** of contracting **by Ed-2 at 7:00 p.m.**	No change
Contract cancellation	**On T+0**	No change
Contract renewal	May be requested **by Ed-4**	May be requested **by Dv-3**

E d   =   E X P I R A T I O N   D A T E

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

PROJECT T+2: SECURITIES LENDING AND FORWARD EQUITIES [B]³ BRASIL BOLSA BALCÃO

SECURITIES LENDING

EARLY SETTLEMENT OF CONTRACTS

PROCESS	CURRENT (T+3)	NEW (T+2)
Early settlement requested by the lender	By 9:30 a.m.: settles on **Rd+3**	By 9:30 a.m.: settles on **Rd+2**
	After 9:30 a.m.: settles on **Rd+4**	After 9:30 a.m.: settles on **Rd+3**
	May be requested **by Ed-4**	May be requested **by Ed-3**
Early settlement requested by the borrower	Settles on **Rd+1**	No change

Rd = REQUEST DATE
Ed = EXPIRATION DATE

Note: The deadlines for requesting cancellation of early settlement will not change

PROJECT T+2: SECURITIES LENDING AND FORWARD EQUITIES [B]³ BRASIL BOLSA BALCÃO

SECURITIES LENDING

TREATMENT OF CORPORATE ACTIONS

PROCESS	CURRENT (T+3)	NEW (T+2)
Date of action application	**On T+3** from the last date with rights.	**On T+2** from the last date with rights.

TREATMENT OF CORPORATE ACTIONS – PRIORITY PLACEMENT OF SHARES

PROCESS	CURRENT (T+3)	NEW (T+2)
Expiration date of the sub-agreement created by priority placement of shares	**On T+4** from the placement settlement date	**On T+3** from the placement settlement date

PROJECT T+2: SECURITIES LENDING AND FORWARD EQUITIES

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SECURITIES LENDING

TREATMENT OF CORPORATE ACTIONS - SUBSCRIPTION

PROCESS	CURRENT (T+3)	NEW (T+2)
Return of lender's rights	On **T+9***	On **T +8***
Lender with no rights chooses cash settlement or sub-agreement	On **T +10***	On **T +9***
Cash settlement of the right	On **T +11***	On **T +10***
Expiration date of sub-agreement after subscription approval	**T+4** from date of approval	**T+3** from date of approval

* from update of corporate action

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

T+2

DEPOSITORY AND CORPORATE ACTIONS

PROJECT T+2: SCOPE BY PROCESS

DEPOSITORY AND CORPORATE ACTIONS

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DEPOSIT FLOW

A. Participants have agreed to an enhancement to the **Deposit** process, which will allow finalization of the flow on **T+0.**

B. New windows will be created for the generation of the EPTA file. These will be incremental during the day. The file generated in batch processing will remain complete to allow the current process to continue.

C. There will also be the creation of new PTAC file processing windows during the day and the generation of BLCI and BLCA files.

ETF PRIMARY MARKET

A. Settlement of the ETF primary market remains unchanged for T+2 settlement.

B. There are no changes to ETFs with gross settlement (e.g. International ETF).

BDR and UNIT

A. For BDR/UNIT issuance and cancellation flows, there are no impacts or changes to be made in the context of project T+2 settlement.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

DEPOSITORY AND CORPORATE ACTIONS

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CORPORATE ACTIONS

A. Corporate actions will be applied at the Depository on the night of T+2 to T+3, referencing the last day the security is traded with the right to receive earnings (D).

B. The trading deadline for subscription rights will be optimized from T-5 to T-4, calculated based on the maturity of the corporate action exercise.

C. The transfer of earnings with the exchange of title, allowed by the Custody Agents without the Registrar's permission, shall be reduced to "as of 10 business days from the ex date" to "as of nine business days from the ex date".

D. Any other date that might undergo change for corporate actions shall only be discussed after the implementation of T+2.

T+2

PUBLIC DISTRIBUTION OFFERS

PUBLIC DISTRIBUTION OFFERS

Key points:

1. Public offers of shares, whether **ICVM 400 or ICVM 476** offers, especially dual listing offers, feature activity timetables that will be adapted with the change to T+2.

2. Main changes:
   a. **ICVM 400 public offers with dual listings:** shares will begin to be traded on the day after (T+1) bookbuilding. The allocation processes of the offer and transmission of the IRIS file by lead managers will occur on T+1, with settlement of the offer on T+2.
   b. **ICVM 400 public offers:** shares will begin to be traded on T+2 of bookbuilding. The offer allocation processes by lead managers will occur on T+1, the transmission of the IRIS file on T+2, and settlement of the offer on T+3.
   c. **ICVM 476 public offers:** shares will still begin to be traded on T+2 of bookbuilding. The offer allocation processes by lead managers and settlement of the offer will henceforth occur on T+2.

T+2

TEMPORARY PROCEDURES FOR IMPLEMENTATION

PROCEDURES FOR THE FIRST DAY OF THE NEW SETTLEMENT CYCLE

SETTLEMENT PROCESS ON DAY S

A. Settlement of the **two trading sessions** (S-3 and S-2) in a **single window**.

B. The **allocation** and **custodian indication authorization** processes for the S-3 and S-2 trading sessions will be kept **segregated**.

C. The securities settlement instructions of the two trading sessions comprise the instructions to settle on Day S in a **segregated** manner. If there are instructions for two contract months on opposite sides of the S-3 and S-2 trading sessions, the clearinghouse shall consider the instructions to be settled to the compatible quantity.

D. **Cleared cash** settlement.

E. **S-3 and S-2 defaults** will generate **settlement instructions** on the following day (S+1). **Buy-ins will not be generated** automatically for the **defaults** of **S-3** on Day S.

F. **Open buy-ins** with a trading date prior to S-2 (1st trading day on T+2), **remain** with the **current** buy-in **deadlines**. **Buy-ins** with a trading date as of **S-2** (including), shall comply with the **new deadlines**.

G. There has been a request to reduce or temporary exempt the fine for delivery failure during the stabilization period - subject to approval by the regulator.

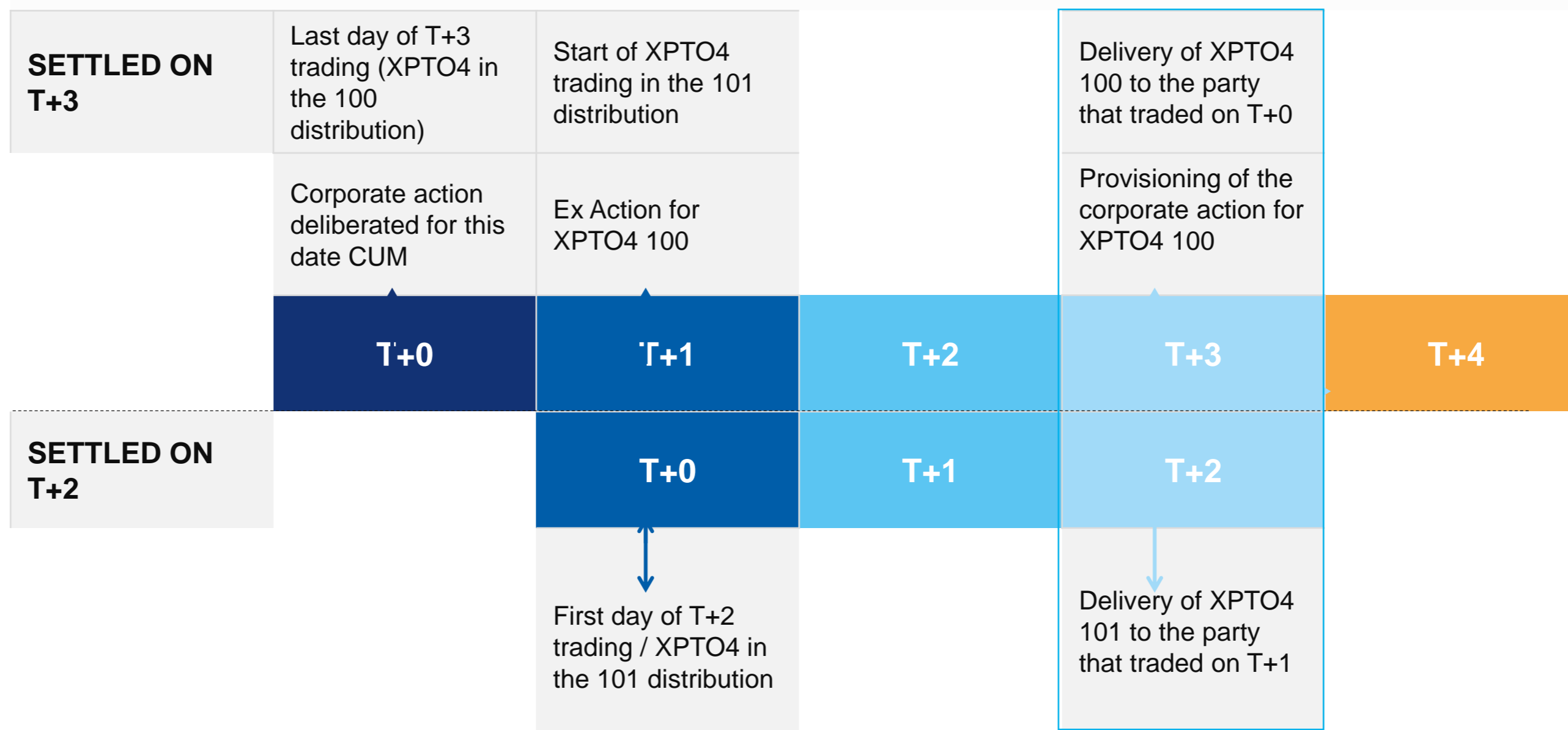*Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies*

TRANSITIONS FOR SETTLEMENT ON T+2

TRANSITION FOR SETTLEMENT ON DAY S (1st SETTLEMENT ON T2)

	S-2	S-1	S	S+1	S+2
Trading	Trade for T+2	Trade for T+2	Trade for T+2	Trade for T+2	Trade for T+2
T+0 allocation	Allocate by 8:30 p.m	Allocate by 8:30 p.m	Allocate by 8:30 p.m	Allocate by 8:30 p.m	Allocate by 8:30 p.m
T+1 allocation	Allocate by 3:00 p.m	Allocate by 3:00 p.m	Allocate by 3:00 p.m	Allocate by 3:00 p.m	Allocate by 3:00 p.m
Authorization	Authorize T-2 trades	Authorize trading on T2 (S-3) Authorize trading on T1 (S-2)	Authorize trading on T1	Authorize trading on T1	Authorize trading on T1
Composition of to settle window	T4 Defaults T3 Settlement	T4 Defaults T3 Settlement	T4 Defaults (L-4) T3 Settlement (L-3) T2 Settlement (L-2)	T4 Defaults (S-3) T3 Defaults (S-2) T2 Settlement (S-1)	T3 Defaults (S-1) T2 Settlement (S2)
Buy-in Issuance	Issue for T4 defaultS	Issue for T4 defaults	Issue for T4 defaults (S-4)	Issue for T4 defaults (S-3) Issue for T3 defaults (S-2)	Issue for T3 defaults (S-1)

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory authorities

ACTIONS WITH "EX DATE" FOR THE FIRST TRADING DAY OF T+2

In this scenario we will have a problem in executing settlement of the last trading session of T+3 and the first of T+2. We will have the same security being settled with different distributions.
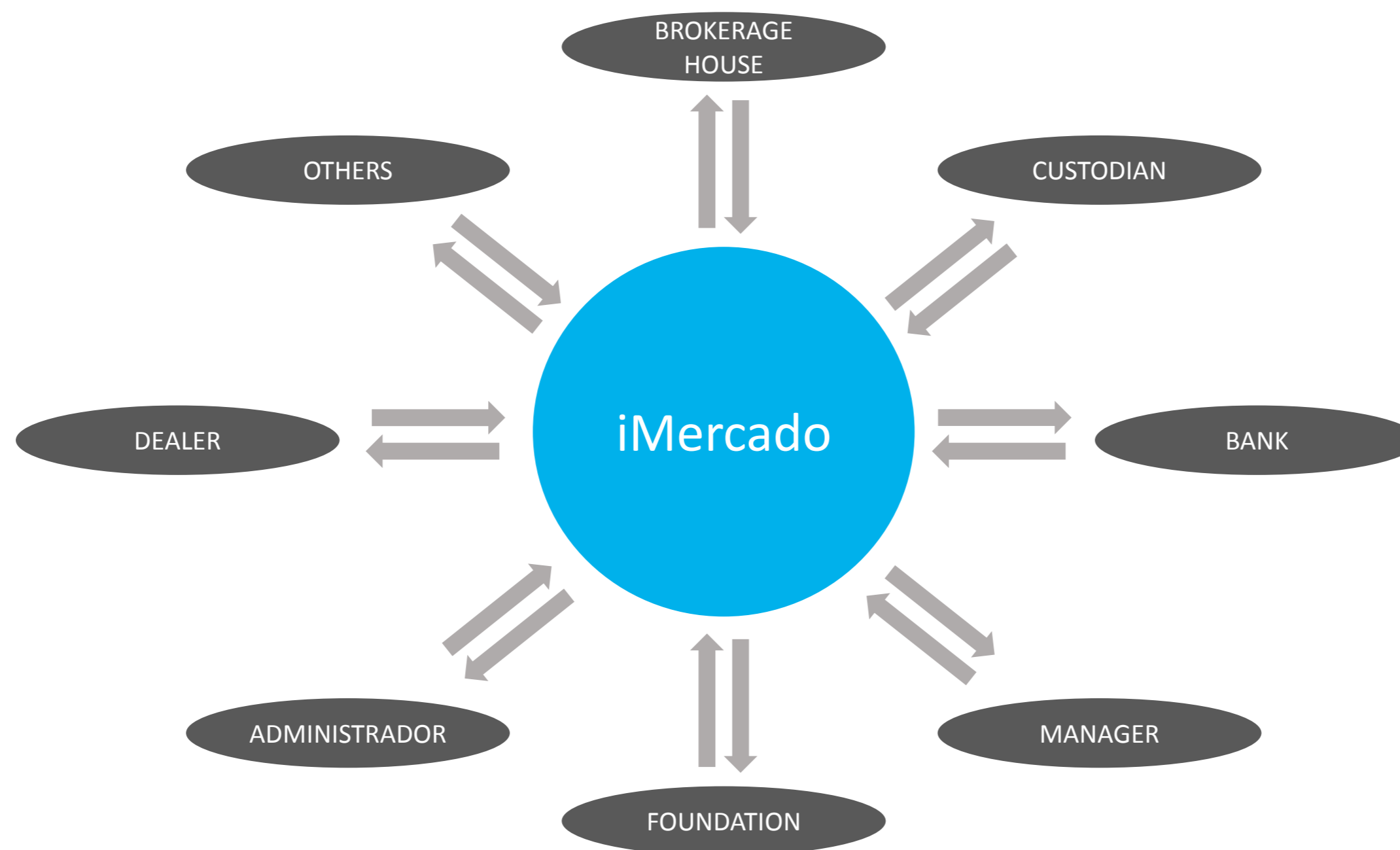
EXAMPLE:

SETTLED ON T+3	Last day of T+3 trading (XPTO4 in the 100 distribution)	Start of XPTO4 trading in the 101 distribution		Delivery of XPTO4 100 to the party that traded on T+0	
	Corporate action deliberated for this date CUM	Ex Action for XPTO4 100		Provisioning of the corporate action for XPTO4 100	
	T+0	**T+1**	**T+2**	**T+3**	**T+4**
SETTLED ON T+2		**T+0**	**T+1**	**T+2**	
		First day of T+2 trading / XPTO4 in the 101 distribution		Delivery of XPTO4 101 to the party that traded on T+1	

T+2

iMERCADO

iMercado

Two types of information conveyed in iMercado:

1. For reconciliation purposes:

- Information for the day's opening/close routines or "snapshots" during the day.
- IMBARQ file

2. For transaction purposes:

- Information for intraday processes.
- Examples: trade allocation, give-up approvals, pre-matching, loan renewal, etc.

T+2
SETTLEMENT CYCLE CASH MARKET

THREE LARGE PROCESS BLOCKS WERE ANALYZED

1. INR Registration Form

2. INR Pre-Matching

3. Allocation

- Trade confirmation, give-up, allocation, brokerage bill, matching with custodian
- These flows will serve the project at the first stage with no average price, and at the second stage with an average price. In other words, there will be no rework.

iMercado

FLOW: NONRESIDENT INVESTOR REGISTRATION FORM

CORRETORA (PNP)
BANCO (PL)

iMercado

CUSTODIANTE

SOLICITAÇÃO DE DADOS CADASTRAIS **1**

2 STATUS - PENDENTE

3 SOLICITAÇÃO DE APROVAÇÃO

APROVAÇÃO DE ENVIO DE DADOS **4**

5 STATUS - APROVADO

6 STATUS - APROVADO

7 ENVIO DE DADOS CADASTRAIS

8 ENVIO DE DADOS CADASTRAIS (atualizado)

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory authorities

iMercado

BROKERAGE HOUSES (FTP)
BANKS (TP)

CUSTODIAN

iMercado

1. INFORMS PRE-MATCHING DATA

2. INFORMS "MATCHED" STATUS

3. INFORMS "MATCHED" STATUS

4. REQUESTS PRE-MATCHING CANCELLATION

5. APPROVES PRE-MATCHING CANCELLATION

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

iMercado

BROKERAGE HOUSES (FTP)
BANKS (TP)

iMercado

CUSTODIAN

1 INFORMS PRE-MATCHING DATA

2 INFORMS PRE-MATCHING DATA

Transaction ID	PreMatch ID		
T123456799	1611516CVALE5-1		
T123456791	1611716VVALE5-1		

Description: FTP or TP has two accounts in the name of the customer and CST has a custody account in the name of the customer.
- 1 and 2: FTP/TP sends two messages (one to each account) to CST, informing the pre-matching data.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

iMercado

BROKERAGE HOUSES (FTP)
BANKS (TP)

iMercado

CUSTODIAN

1 INFORMS PRE-MATCHING DATA

2 INFORMS PRE-MATCHING DATA

INFORMS "MATCHED" STATUS **3**

INFORMS "MATCHED" STATUS **4**

Description: FTP or TP has two accounts in the name of the customer and CST has a custody account in the name of the customer.
- 1 and 2: FTP/TP sends two messages (one to each account) to CST, informing the pre-matching data;
- 3 and 4: CST sends two messages to the FTP/TP, informing the pre-matching data reconciliation status – MATCHED.

Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T9876543212	1611516CVALE5-1	T123456799	Matched
T9876543211	1611716VVALE5-1	T123456791	Matched

FLOW: PRE-MATCHING – EXAMPLE 1 (matched status, initiated by FTP/TP)

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BROKERAGE HOUSES
(FTP)
BANKS (TP)

iMercado

CUSTODIANTE

1 INFORMS PRE-MATCHING DATA →

2 INFORMS PRE-MATCHING DATA →

← INFORMS "MATCHED" STATUS **3**

← INFORMS "MATCHED" STATUS **4**

5 INFORMS "MATCHED" STATUS →

6 INFORMS "MATCHED" STATUS →

Description: FTP or TP has two accounts in the name of the customer and CST has a custody account in the name of the customer.
- 1 and 2: FTP/TP sends two messages (one to each account) to CST, informing the pre-matching data;
- 3 and 4: CST sends two messages to the FTP/TP, informing the pre-matching data reconciliation status
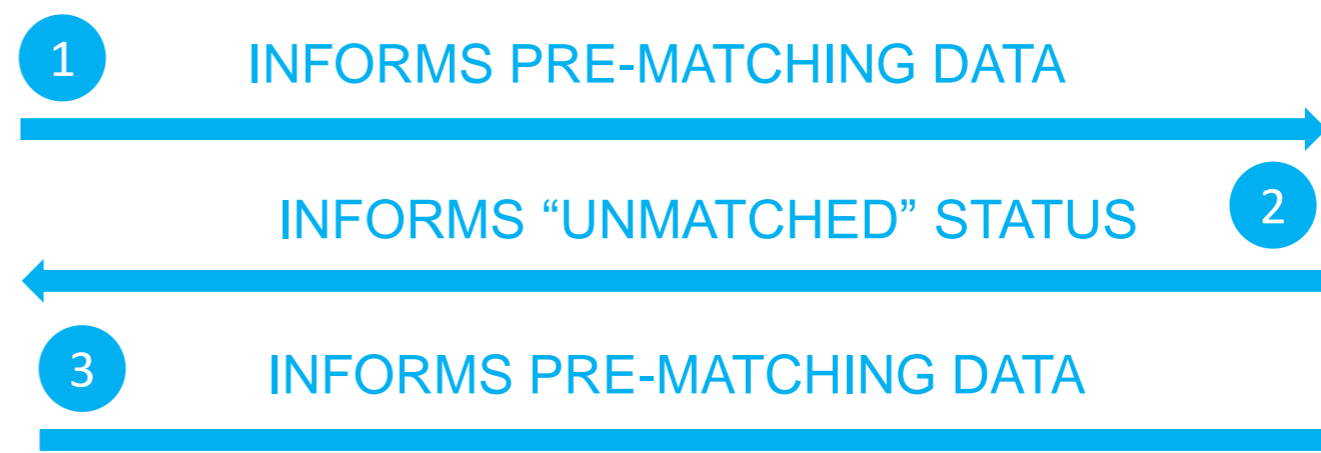- – MATCHED;
- 5 and 6: FTP/TP sends two messages to the CST, informing the pre-matching data reconciliation status
- – MATCHED.
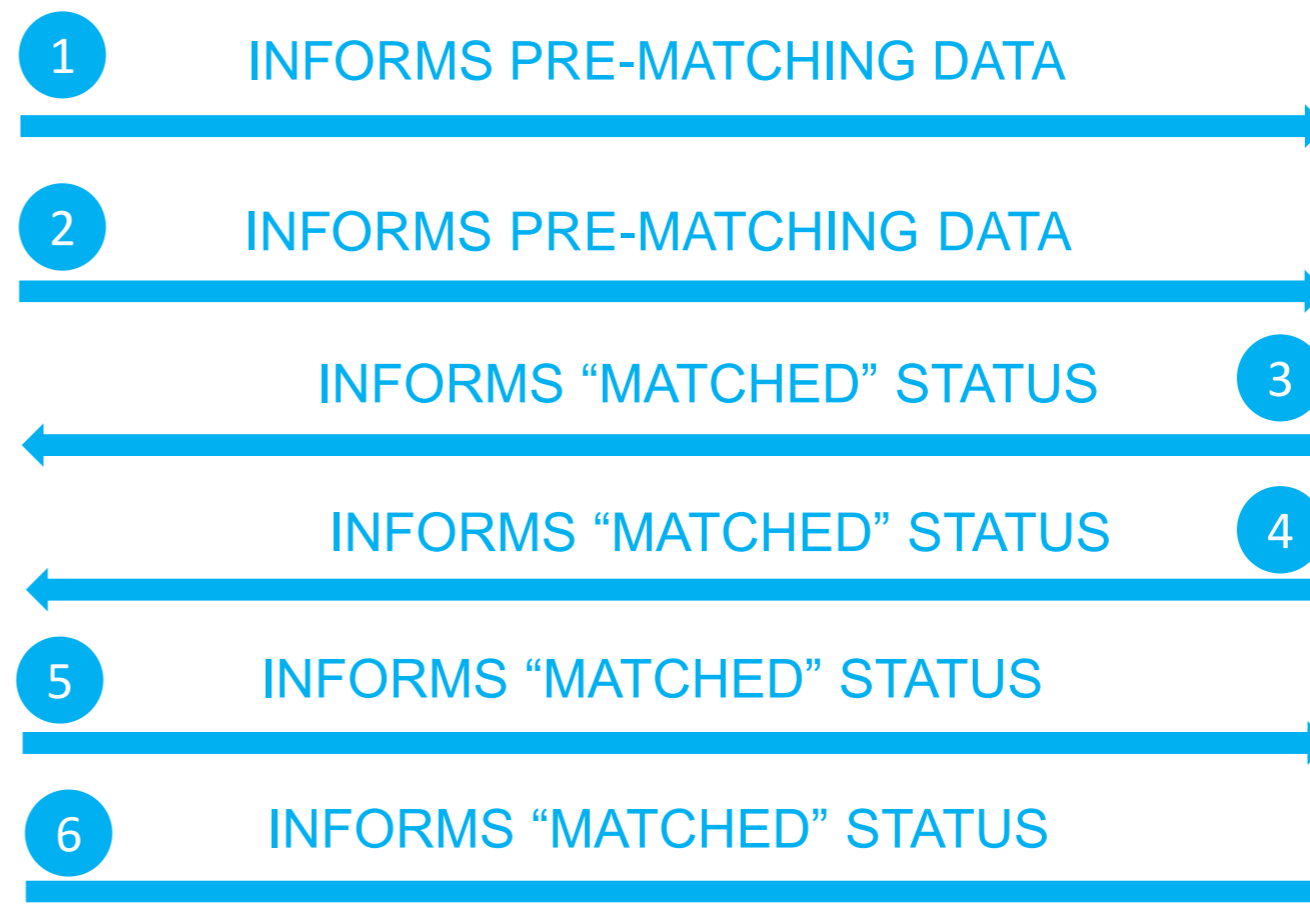
Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T9876543213	1611516CVALE5-1	T9876543212	Matched
T9876543214	1611716VVALE5-1	T9876543211	Matched

iMercado

BROKERAGE HOUSES
(FTP)
BANKS (TP)

iMercado

CUSTODIAN

INFORMS PRE-MATCHING DATA　　(1)

Transaction ID	PreMatch ID		
T123456799	1611516CVALE5-1		

Description: FTP or TP has two accounts in the name of the customer and CST has a custody account in the name of the customer.
- 1: CST sends a message to the FTP/TP, informing the pre-matching data.

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[B]³

| BROKERAGE HOUSES (FTP) BANKS (TP) | iMercado | CUSTODIAN |

1 INFORMS PRE-MATCHING DATA

Transaction ID	PreMatch ID		
T123456799	1611516CVALE5-1		

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, informing the pre-matching data.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

iMercado

BROKERAGE HOUSES
(FTP)
BANKS (TP)

CUSTODIAN

iMercado

1 INFORMS PRE-MATCHING DATA

INFORMS "UNMATCHED" STATUS **2**

Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Unmatched Reason
T9876543212	1611516CVALE5-1	T123456799	DMON (Volume da liquidação divergente)

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

iMercado

BROKERAGE HOUSES
(FTP)
BANKS (TP)

iMercado

CUSTODIAN

1 INFORMS PRE-MATCHING DATA

INFORMS "UNMATCHED" STATUS **2**

3 INFORMS PRE-MATCHING DATA

Transaction ID	PreMatch ID		
T223456799	1611516CVALE5-1		

Description: FTP or TP has an account in the name of the customer and the CST has a custody account in the name of the customer.

- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED.
- 3: FTP/TP makes the necessary adjustments and sends a new message to the CST, informing the new pre-matching data.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

iMercado

BROKERAGE HOUSES
(FTP)
BANKS (TP)

CUSTODIAN

iMercado

1 INFORMS PRE-MATCHING DATA →

INFORMS "UNMATCHED" STATUS ← **2**

3 INFORMS PRE-MATCHING DATA →

INFORMS "MATCHED" STATUS ← **4**

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
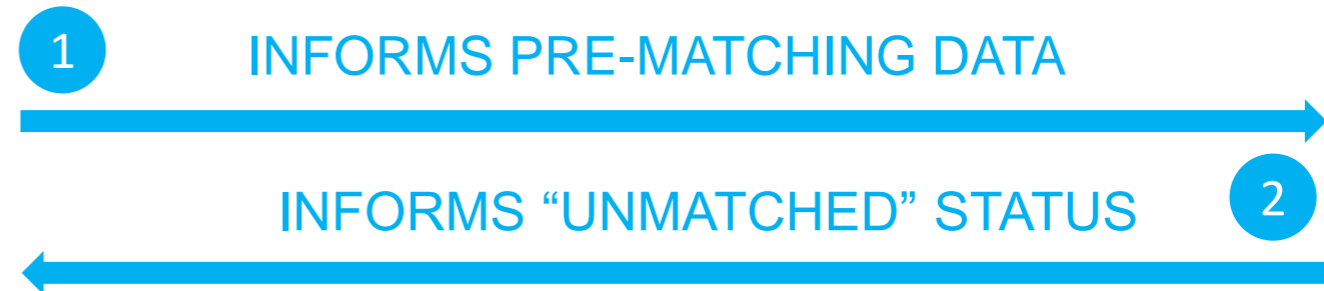- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED.
- 3: FTP/TP makes the necessary adjustments and sends a new message to the CST, informing the new pre-matching data.
- 4: CST sends a message to the FTP/TP with the pre-matching data status – MATCHED.

Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T9876543212	1611516CVALE5-1	T223456799	Matched

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FLOW: PRE MATCHING – EXAMPLE 3 (unmatched and then matched status)

[B]³

BROKERAGE HOUSES
(FTP)
BANKS (TP)

iMercado

CUSTODIAN

1 INFORMS PRE-MATCHING DATA →

← INFORMS "UNMATCHED" STATUS **2**

3 INFORMS PRE-MATCHING DATA →

← INFORMS "MATCHED" STATUS **4**

5 INFORMS "MATCHED" STATUS →

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED.
- 3: FTP/TP make the necessary adjustments and submit a new message to the CST, informing the new pre-matching data.
- 4: CST sends a message to the FTP/TP with the pre-matching data status – MATCHED.
- 5: FTP/TP sends a message to the CST with the pre-matching data status – MATCHED.
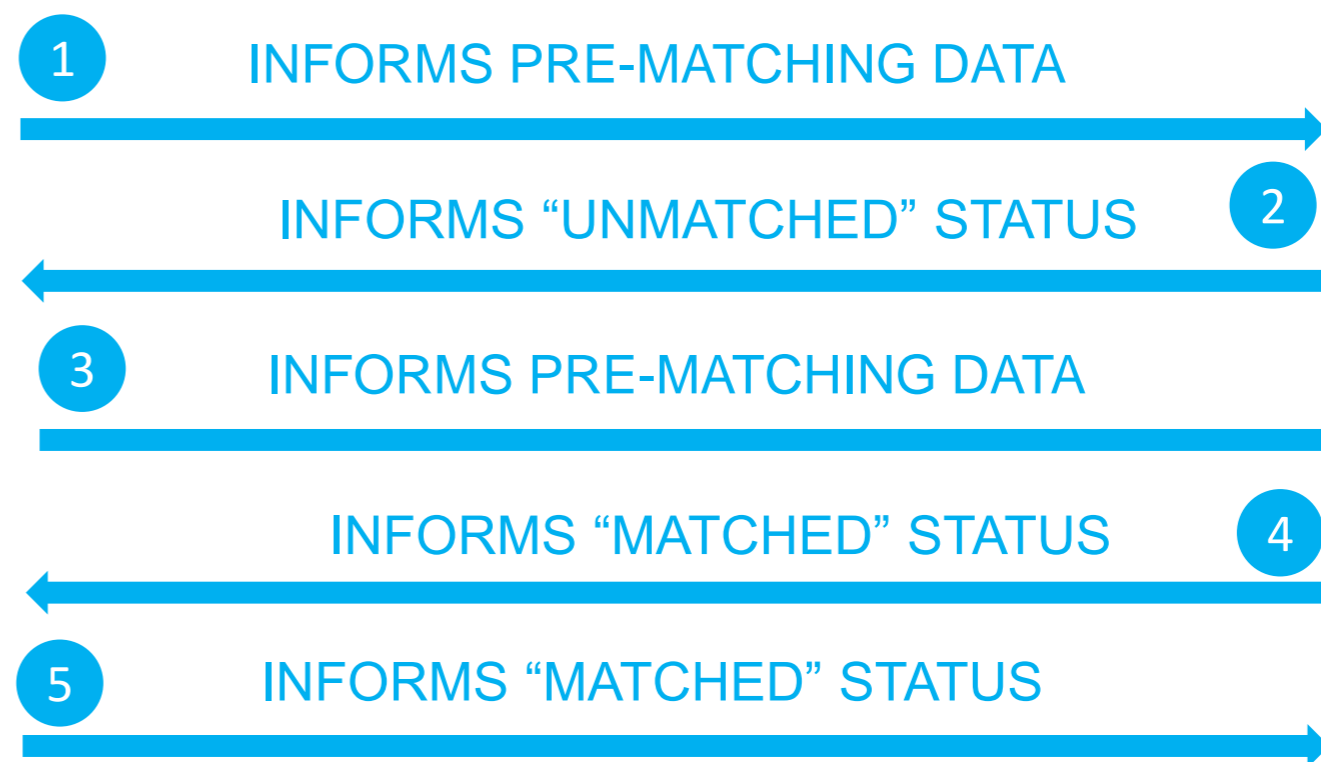
Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T9876543223	1611516CVALE5-1	T9876543212	Matched

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iMercado

BROKERAGE HOUSES
(FTP)
BANKS (TP)

CUSTODIAN

iMercado

1 INFORMS PRE-MATCHING DATA

Transaction ID	PreMatch ID		
T123456709	1611516CVALE5-1		

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, informing the pre-matching data.

iMercado

BROKERAGE HOUSES (FTP)
BANKS (TP)

CUSTODIAN

iMercado

1 INFORMS PRE-MATCHING DATA →

INFORMS "UNMATCHED" STATUS 2

Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Unmatched Reason
T098765412	1611516CVALE5-1	T123456709	DMON (Volume da liquidação divergente)

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED;

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BROKERAGE HOUSES (FTP) BANKS (TP)

CUSTODIAN

iMercado

1 INFORMS PRE-MATCHING DATA →

← **2** INFORMS "UNMATCHED" STATUS

← **3** INFORMS "MATCHED" STATUS

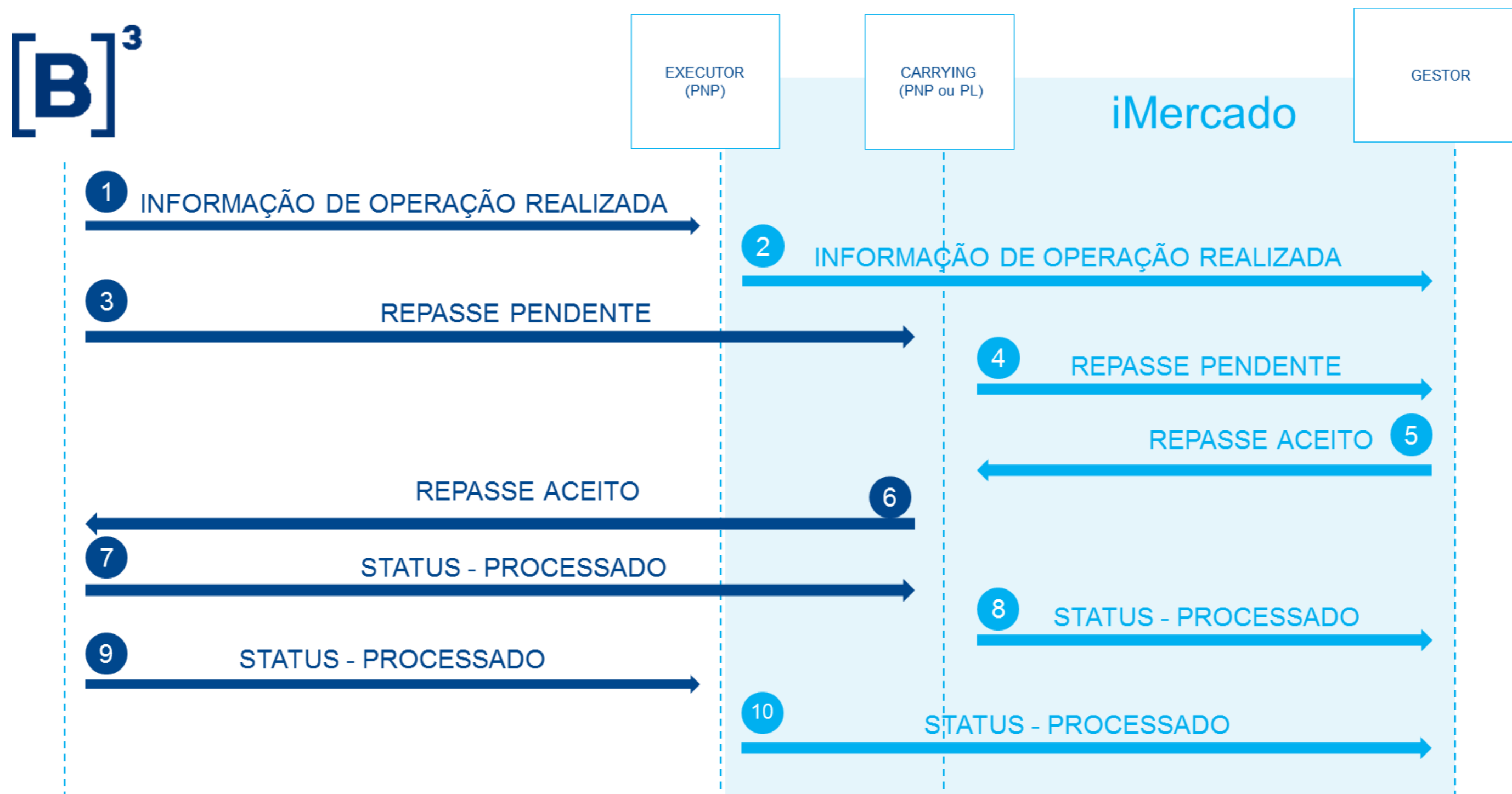| Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T214532988	1611516CVALE5-1	T654709766	Matched

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.

- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED.
- 3: CST verifies whether the pre-matching message data were correct and sends a message to the FTP/TP with the pre-matching data status – MATCHED.

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[B]³

BROKERAGE HOUSES (FTP) BANKS (TP)

iMercado

CUSTODIAN

1 INFORMS PRE-MATCHING DATA →

INFORMS "UNMATCHED" STATUS **2**
←

INFORMS "MATCHED" STATUS **3**
←

4 INFORMS "MATCHED" STATUS →

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, informing the pre-matching data.
- 2: CST sends a message to the FTP/TP, informing the pre-matching data reconciliation status – UNMATCHED.
- 3: CST verifies whether the pre-matching message data were correct and sends a message to the FTP/TP with the pre-matching data status – MATCHED;
- 4: FTP/TP sends a message to the CST with the pre-matching data status – MATCHED.
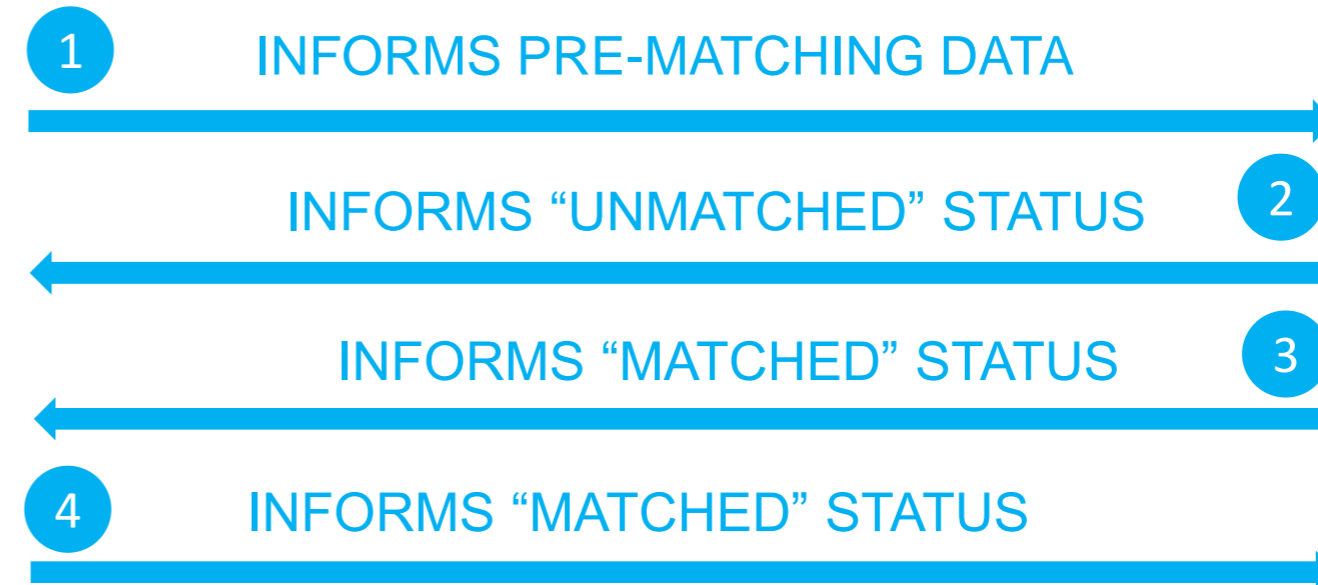
Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T654709766	1611516CVALE5-1	T214532988	Matched

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

iMercado

[B]³

BROKERAGE HOUSES (FTP) BANKS (TP)	iMercado	CUSTODIAN

1 REQUESTS PRE-MATCHING CANCELLATION

Transaction ID	PreMatch ID		
T547890007	1611516CVALE5-1		

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST, requesting cancellation of pre-matching.

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[B]³

BROKERAGE HOUSES (FTP) BANKS (TP)

iMercado

CUSTODIAN

1 REQUESTS PRE-MATCHING CANCELLATION →

← APPROVES PRE-MATCHING CANCELLATION **2**

Transaction ID	PreMatch ID	ExecutingParty Transaction ID	Status
T663021343	1611516CVALE5-1	T547890007	AFFI - Aceito

Description: FTP or TP has an account in the name of the customer and CST has a custody account in the name of the customer.
- 1: FTP/TP sends a message to the CST requesting cancellation of pre-matching
- 2: CST sends a message to the FTP/TP confirming cancellation of pre-matching.

FLOW: ALLOCATION AND MATCHING WITH THE CUSTODIAN

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

FLOW: BROKERAGE BILL

[B]³

| CORRETORA (PNP) | iMercado | PL GESTOR CUSTODIANTE |

NOTA DE CORRETAGEM →

⋮

NOTA DE CORRETAGEM →

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies
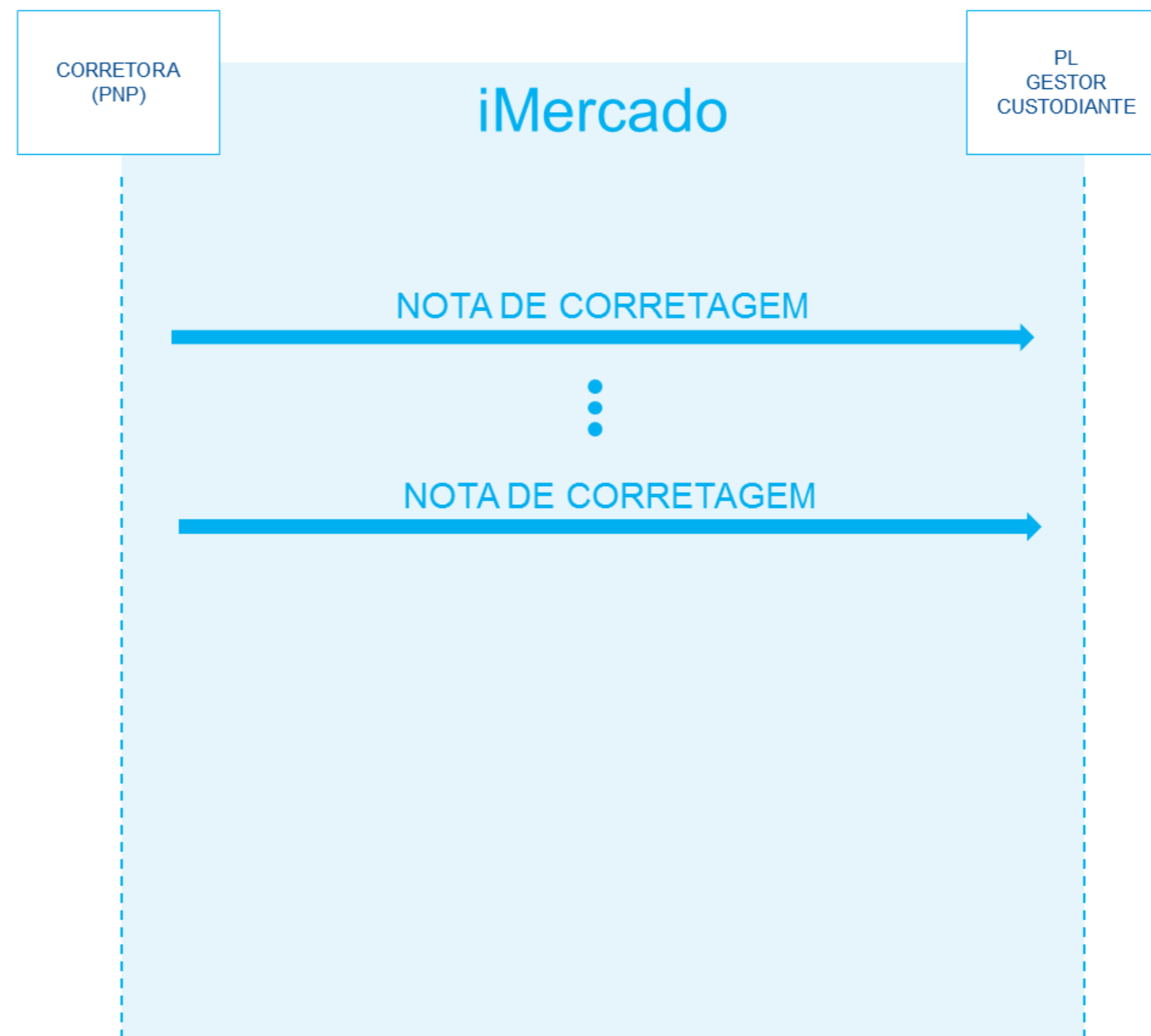
AUTOMATION AND STANDARDIZATION OF POST-TRADE INFORMATION EXCHANGE

Forms of Connection

1. **Gateways Flash – FIX / XML – ISO20022**
    - Direct communication with B3 - RCB
    - FTP, TP, CST
    - Allocation, Give-Up, Brokerage Bill, Pre-Matching and Registration Form
    - Solution designated for direct Participants

2. **API – REST / JSON – ISO20022**
    - Communication via internet – HTTPS
    - Institutional (Asset Managers, Foundations etc)
    - Allocation, Give-Up and Brokerage Bill
    - Solution designated for integration into the legacy systems (Vendors/Proprietary)

3. **WEB Interface**
    - Communication via internet – HTTPS
    - Institutional (Asset managers, Foundations etc)
    - Allocation, Give-Up and Brokerage Bill
    - Solution designated for institutions not willing to expend effort on integrations

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SINACOR

B³ BRASIL BOLSA BALCÃO

SINACOR ADAPTATIONS

T+2 Settlement

- There will be adaptations across the entire settlement flow pertaining to the system's modules.

iMERCADO

- There will be adaptations to the treatment of flows for communication via iMERCADO:
  - Registration Form
  - Pre-Matching
  - Allocation

Permissions

- **DEC. 2018**
  - Certification Version

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

[B]³ BRASIL BOLSA BALCÃO

MODIFIED MODULES

∨

1. BOVESPA Invoice Area

1. Pre-Matching Data Processing

A. Previous Day's Window Adjustments

B. Correspondence Treatment

C. Allocation Process

D. Integration into the Treasury Module

E. Accounting

F. Income Tax

G. Parameterizations

H. Reports

2. Treasury

A. Review of "T3" fixed code

B. Pre-Matching Processing

C. Opening

D. Complementary Calculation Treatment

E. Settlement Integration

F. Mismatch Control Screen

G. BVBG.019 Treatment

H. Reports

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[B]³ BRASIL BOLSA BALCÃO

ALTERED MODULES

3. Custody

A. BVBG.062 and BVBG.063 file treatment

B. Early settlement

C. Position Treatment

4. Accounting and AR

A. Code Review

5. iMERCADO

A. Pre-Matching Treatment

B. Registration Form

C. Allocation

6. Orders Module

A. Specification

B. Distribution

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

SCHEDULE

COFFEE BREAK

Allocation by Average Price

CONTEXT

T+2 Settlement:

- We initially proposed changing as little as possible the business model and post-trading processes.

- Changes would center on adjusting timeframes and windows.

- When transferring custody authorization from T+2 to T+1, the parallelism of allocation with pre-matching would be fundamental.

- One of the main mismatch causes in pre-matching is diverging settlements that result from different average prices calculated by the institutions.

- Suggestion to minimize mismatches: B3 generates a single average price and then accepts allocation by the average price, in replacement of trade-by-trade allocation.

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

GENERAL RULES

- B3 will continue to send the received give-up (bvmf.019) and executed trade (bvmf.012) message

- The participant will submit a block of trades to B3 and request the average price of this block. B3 will answer with the average price (six decimal places) of the block and the identification number of the block.

- The participant who executes the distributions will be responsible for the formation of the block.

Example A – Distribution at the executor
Stage1: Trade-by-trade execution (allocationID) in the master account

PNP

NEGÓCIOS

Máster A

Allocation Number	Quantity	Price	Account
10-1	1.000	10,00	Master A
10-2	500	10,50	Master A
11-1	500	11,00	Master A

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies
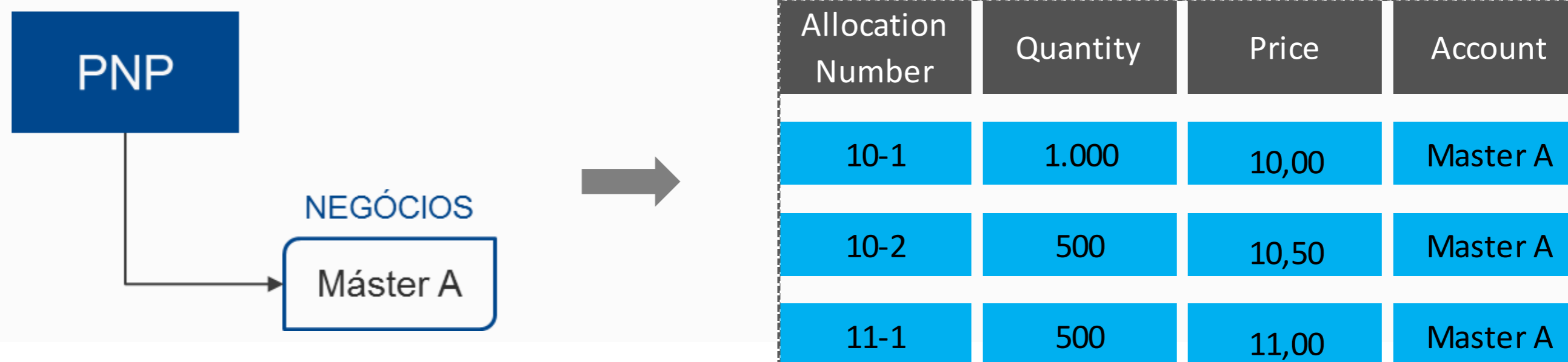
GENERAL RULE

Example A – Distribution at the executor (continued)

Stage 2: Block formation and average price calculation

Negócios

Número da Alocação	Quantidade	Preço	Conta
10-1	1.000	10,00	Máster A
10-2	500	10,50	Máster A
11-1	500	11,00	Máster A

Bloco

Número do Bloco	Quantidade	Preço Médio	Conta
100	2.000	10,375000	Máster A

GENERAL RULES

- If the carrying participant receives trade give-ups (allocationID) in the master account, the carrying participant will form the block.

Example B – Distribution at the carrying participant
Stage 1: Trade-by-trade execution (allocationID) in the master account and give-up to the carrying participant
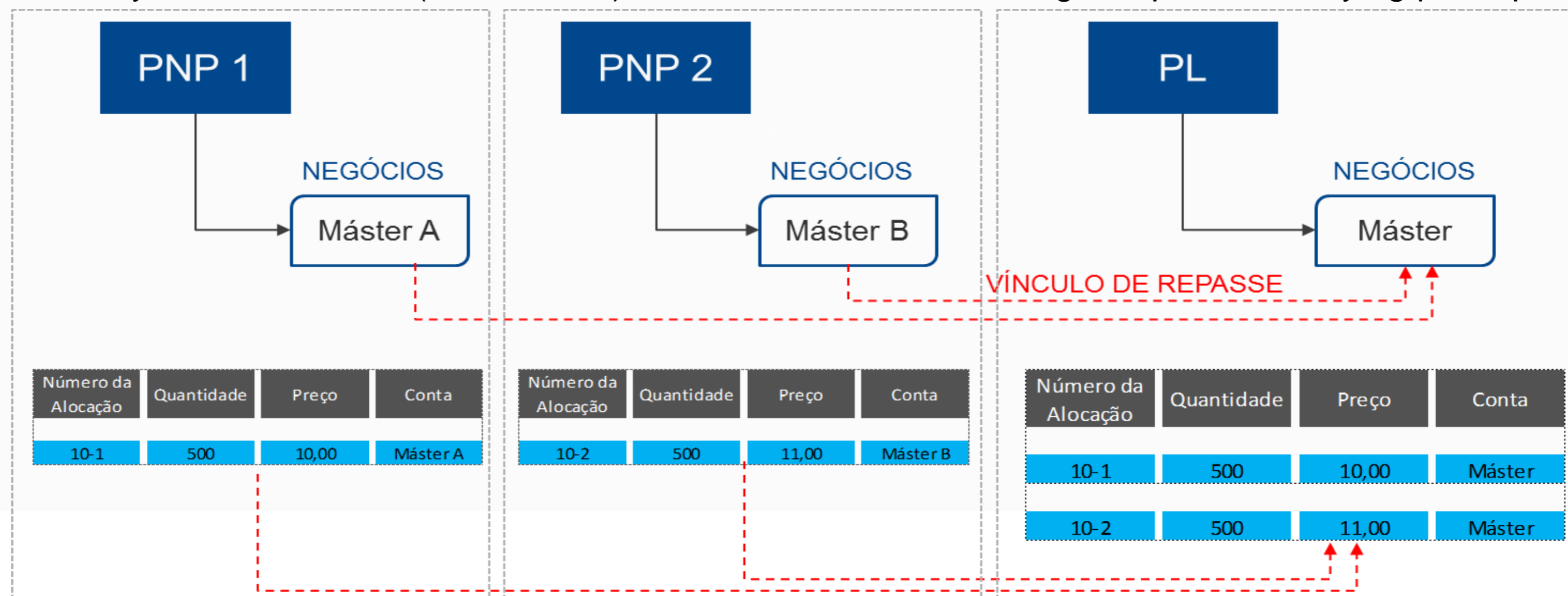
GENERAL RULES

Example B – Distribution at the carrying participant (continued)

Stage 2: Block formation at the carrying participant

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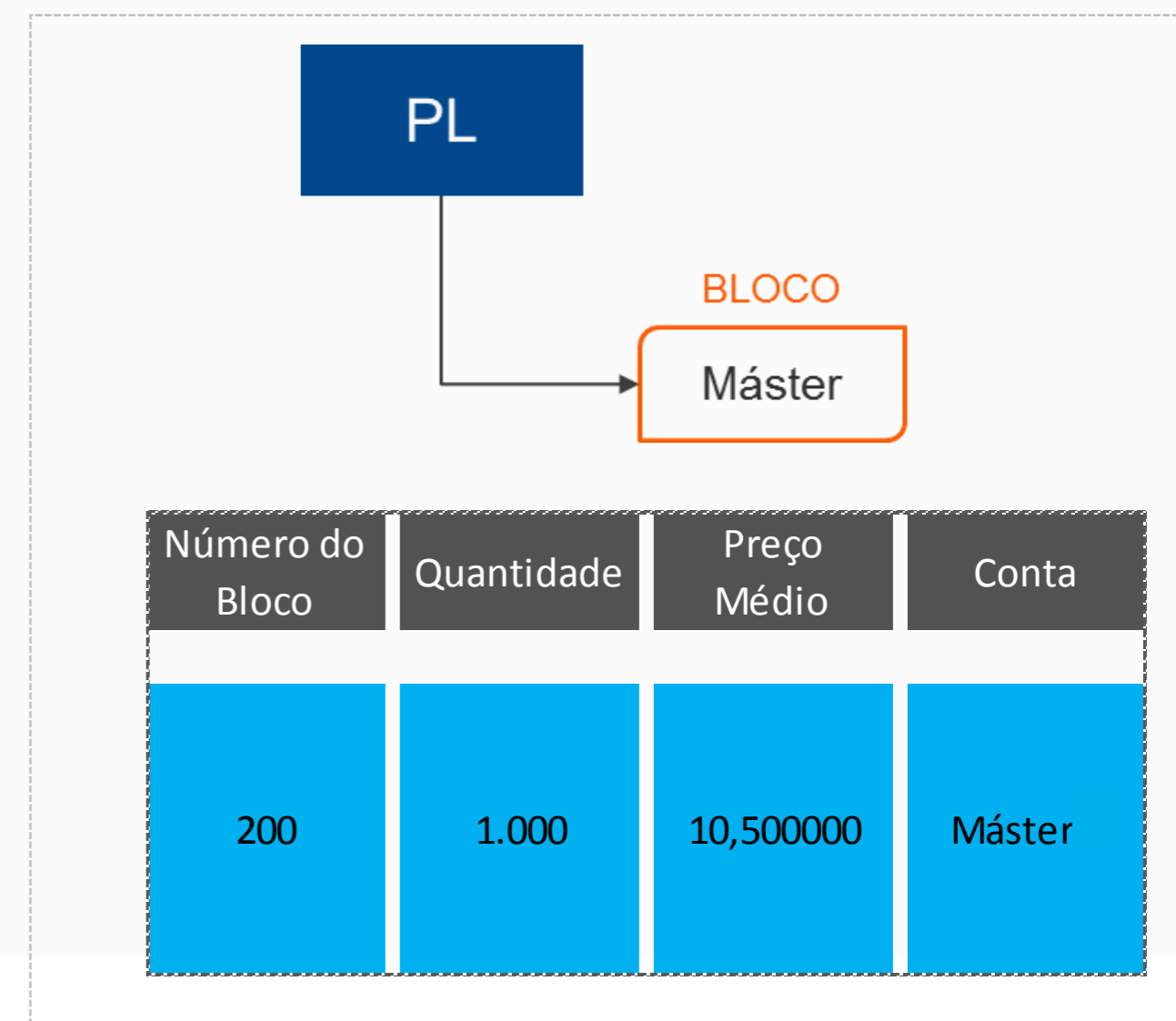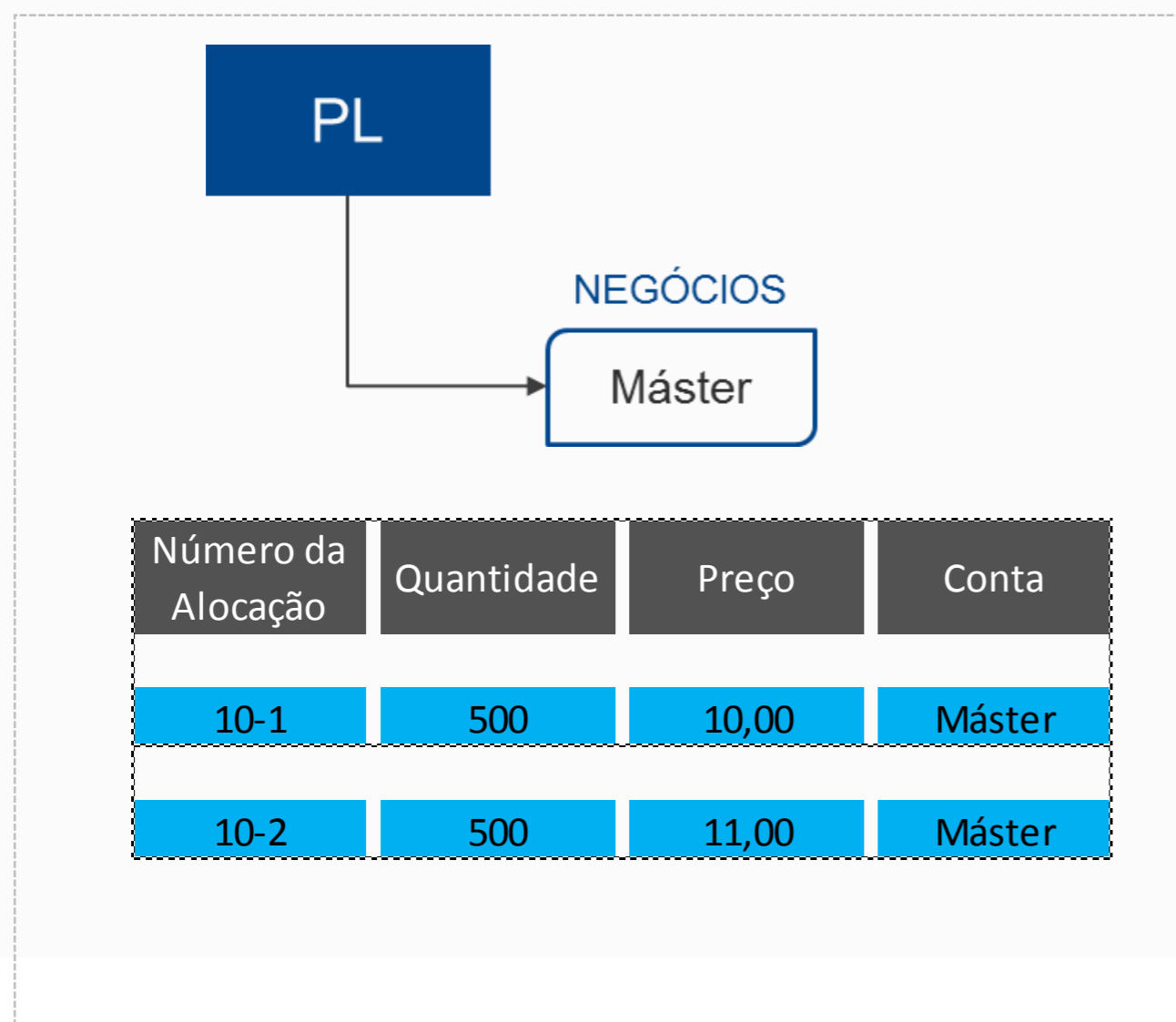
GENERAL RULES

Example B – Distribution at the carrying participant (continued)
Stage 3: Distribution to the funds at the carrying participant
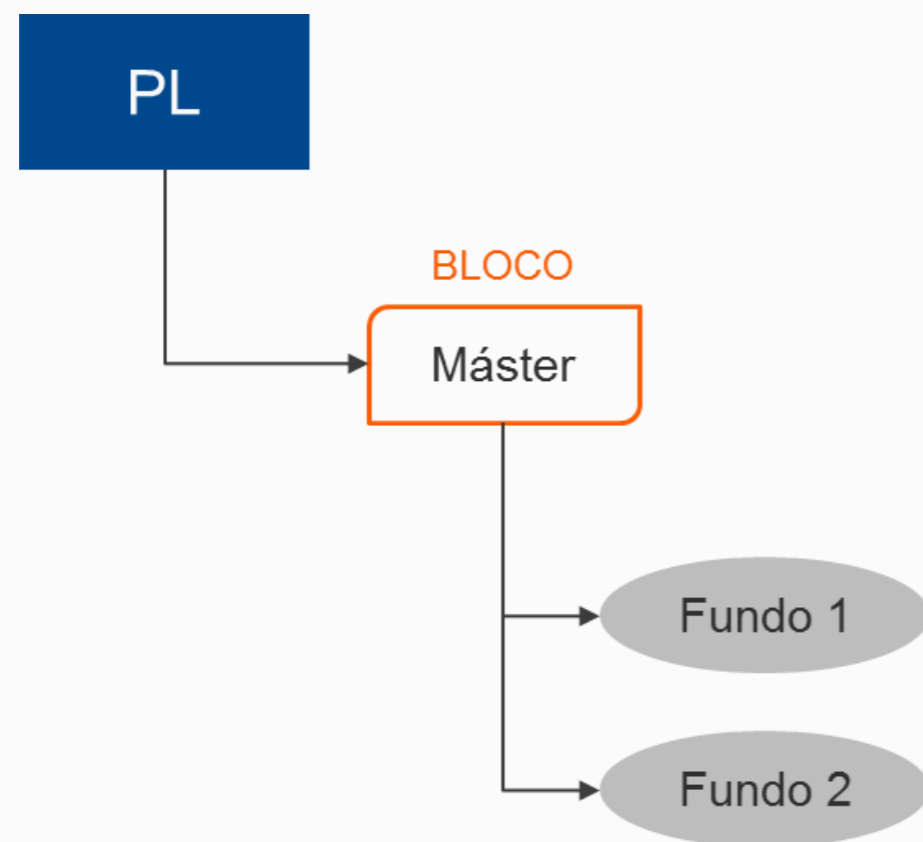
Número do Bloco	Quantidade	Preço Médio	Conta
200	1.000	10,500000	Máster

Número da Alocação	Quantidade	Preço Médio	Conta
200-1	425	10,500000	Fundo 1
200-2	575	10,500000	Fundo 2
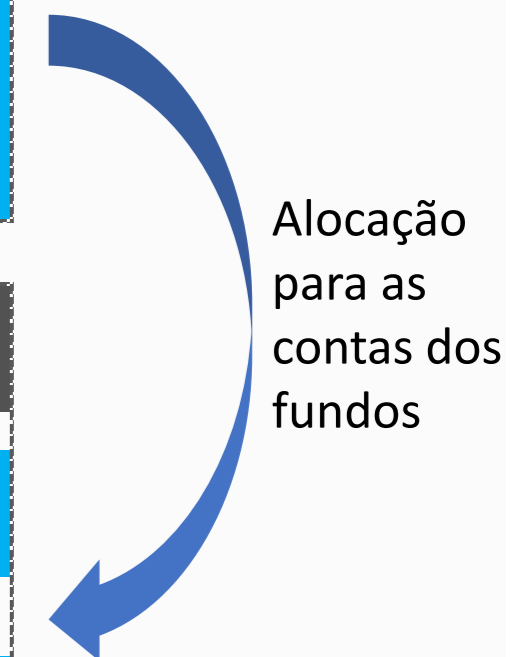
Alocação para as contas dos fundos

If the distribution is carried out by the executor it will be possible to give up a set quantity of the block.

Example C – Distribution with give-up
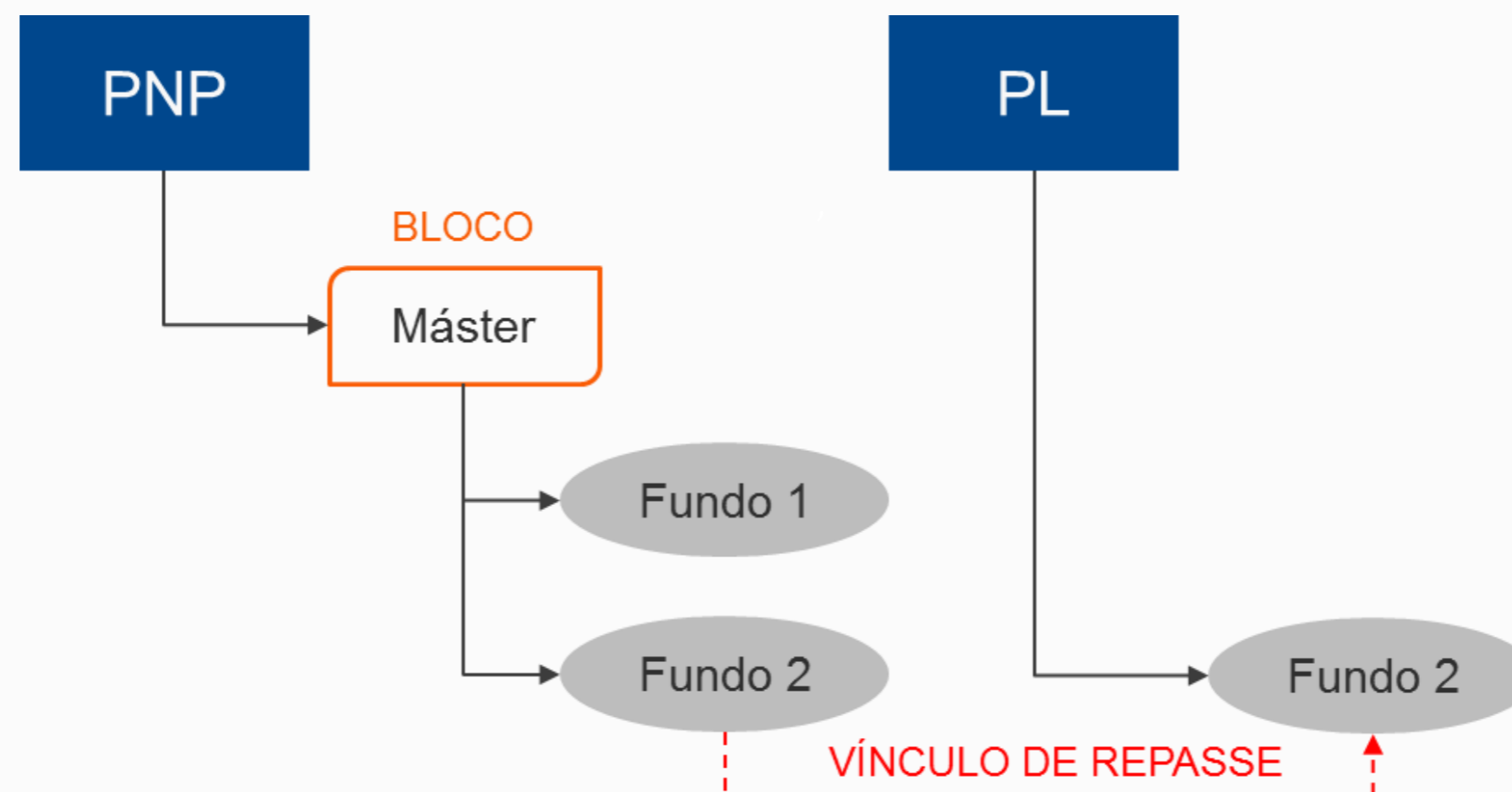
GENERAL RULES

Example C – Distribution with give-up (continued)
Stage 1: After the block formation stage, FTP allocates to the funds' account
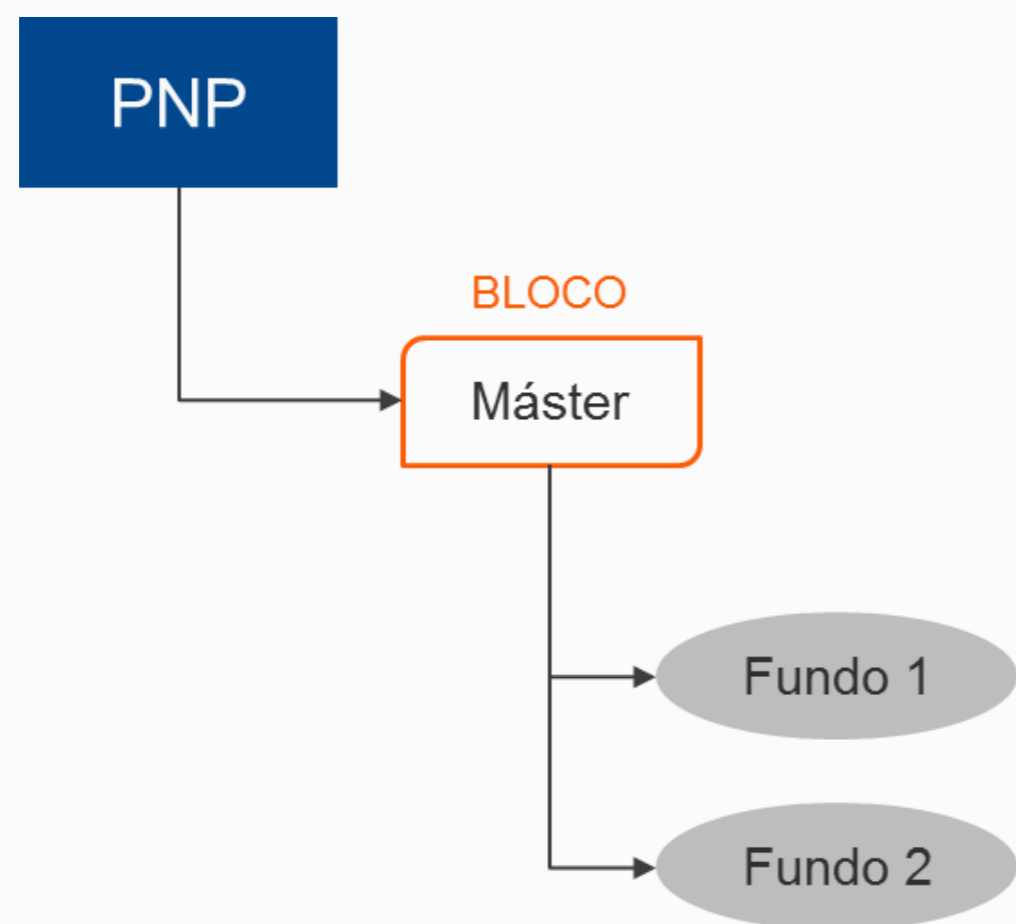
Número do Bloco	Quantidade	Preço Médio	Conta
100	2.000	10,375000	Máster A

Número da Alocação	Quantidade	Preço Médio	Conta
100-1	1.250	10,375000	Fundo 1
100-2	750	10,375000	Fundo 2

Alocação para as contas dos fundos

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

GENERAL RULES

Example C – Distribution with give-up (continued)
Stage 2: One of the accounts has a give-up link

[B]³ BRASIL BOLSA BALCÃO
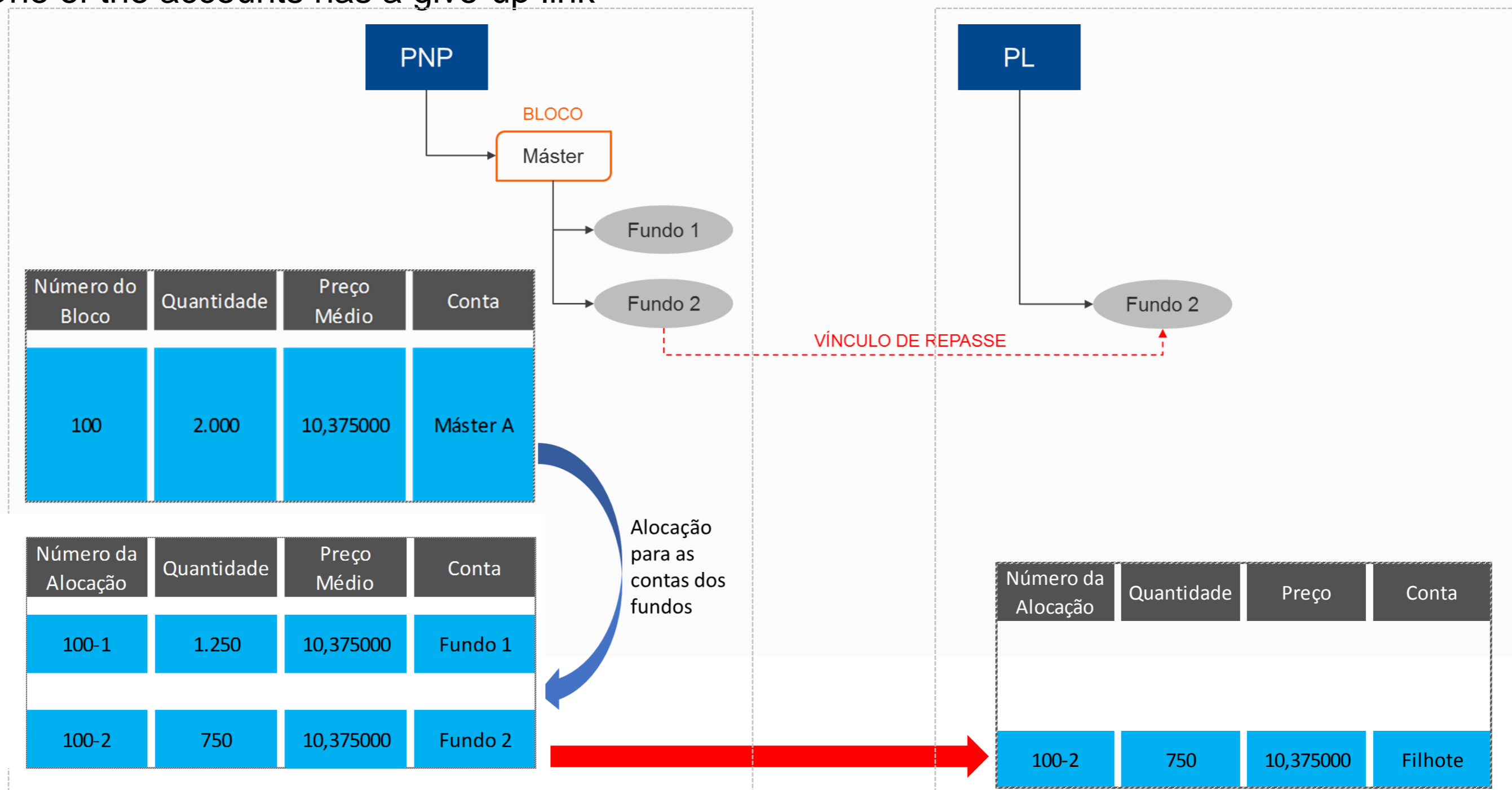
GENERAL RULES

Once the block is formed, it will be possible to **include** trades (allocationID) in the bock, provided that no quantity from the block has been allocated.

Example D – Inclusion of a trade in the block
Stage 1: Block already formed in the master account

Example D – Inclusion of a trade in the block (continued)
Stage 2: Inclusion of a new trade (allocationID) and updated block

Número do Bloco	Quantidade	Preço Médio	Conta
100	2.000	10,375000	Máster A

+

Número da Alocação	Quantidade	Preço	Conta
12-1	1.000	11,00	Máster A

=

Número do Bloco	Quantidade	Preço Médio	Conta
100	3.000	10,583333	Máster A

PNP

BLOCO ATUALIZADO
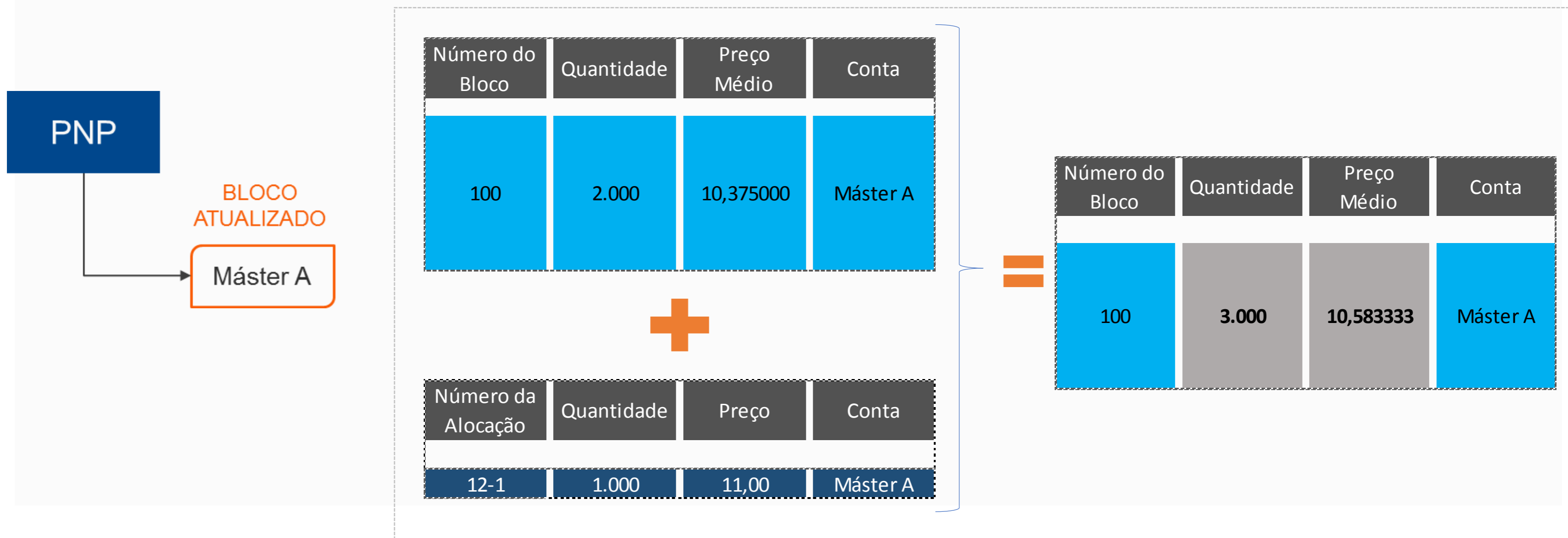
Máster A

Example D – Inclusion of a trade in the block (continued)
Stage 3: Distribution of the updated block
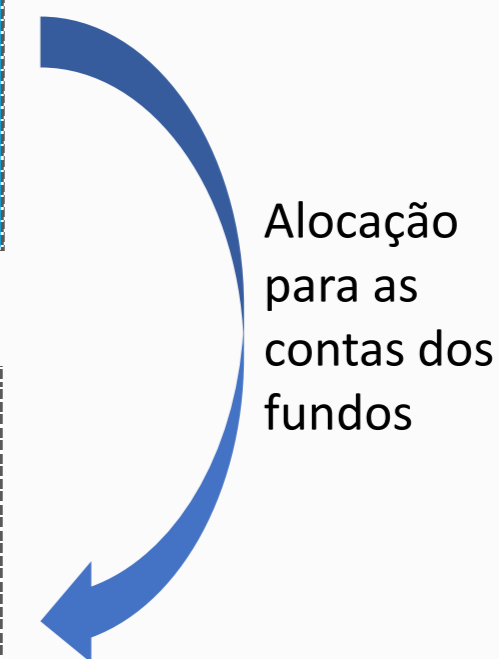
GENERAL RULES

Once the block is formed, it will be possible to **exclude** trades (allocationID) from the bock, provided that no quantity from the block has been allocated.

Example E– Exclusion of a trade from the block
Stage 1: Block already formed in the master account

Example E – Exclusion of a trade from the block (continued)
Stage 2: Exclusion of a trade (allocationID) and updated block

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

GENERAL RULES

It will be possible to exclude a trade allocation (allocationID) belonging to a block. In this case the trade (allocationID) returns to the originating account of the block.

Example F – Allocation exclusion
Stage 1: Distribution of the block already executed
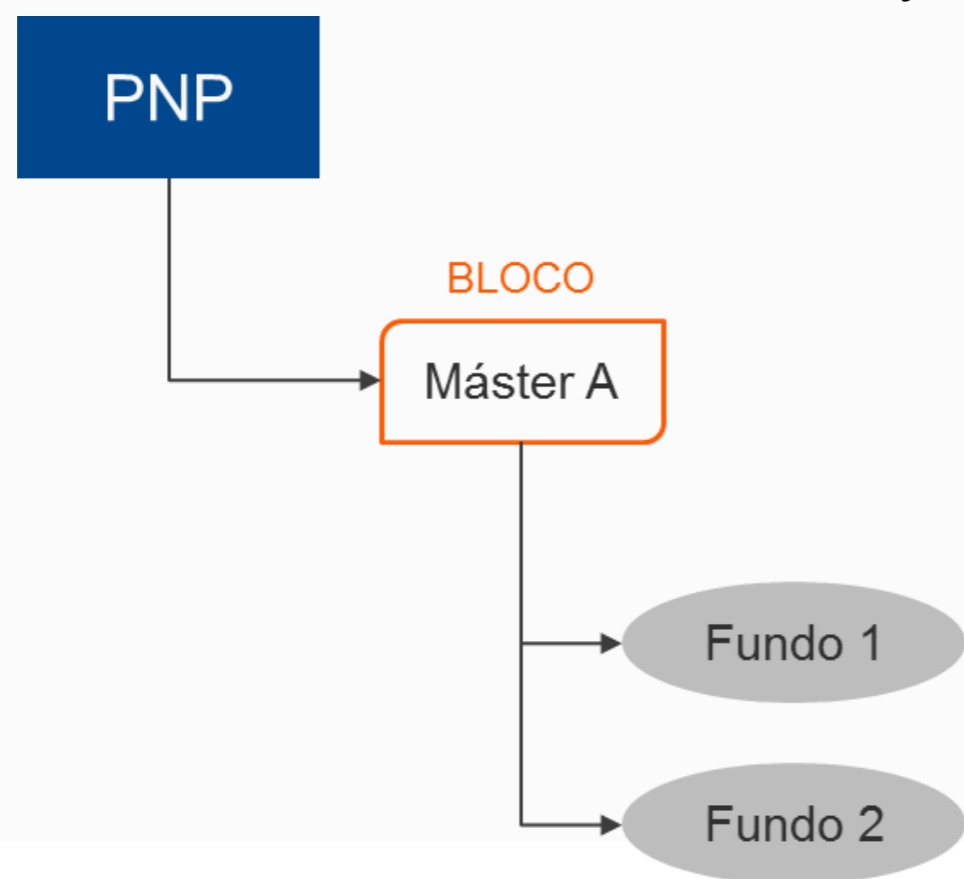
Número do Bloco	Quantidade	Preço Médio	Conta
100	2.000	10,375000	Máster A

Número da Alocação	Quantidade	Preço Médio	Conta
100-1	1.250	10,375000	Fundo 1
100-2	750	10,375000	Fundo 2

Alocação para as contas dos fundos

GENERAL RULES

Example F – Allocation exclusion (continued)
Stage 2: Allocation exclusion
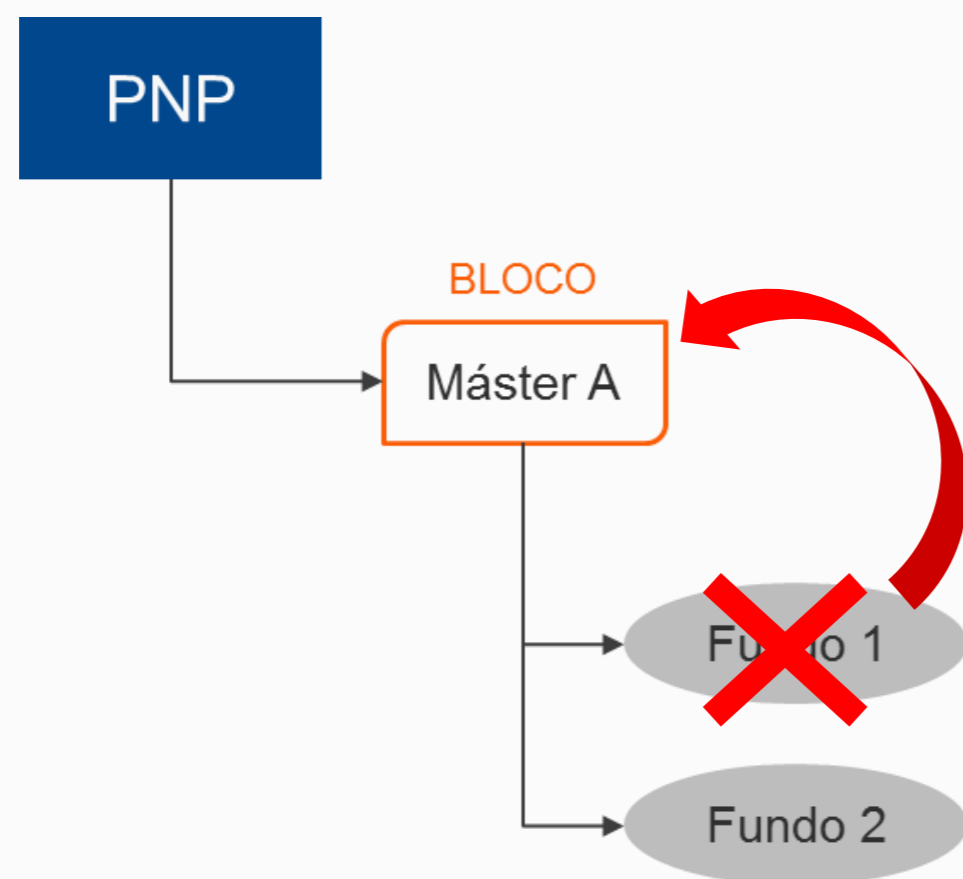
Número da Alocação	Quantidade	Preço Médio	Conta
100-1	1.250	10,375000	Fundo 1
100-2	750	10,375000	Fundo 2

Número da Alocação	Quantidade	Preço Médio	Conta
100-3	1.250	10,375000	Master
100-2	750	10,375000	Fundo 2

GENERAL RULES

Example F – Allocation exclusion (continued)
Stage 3: Inclusion of new allocation
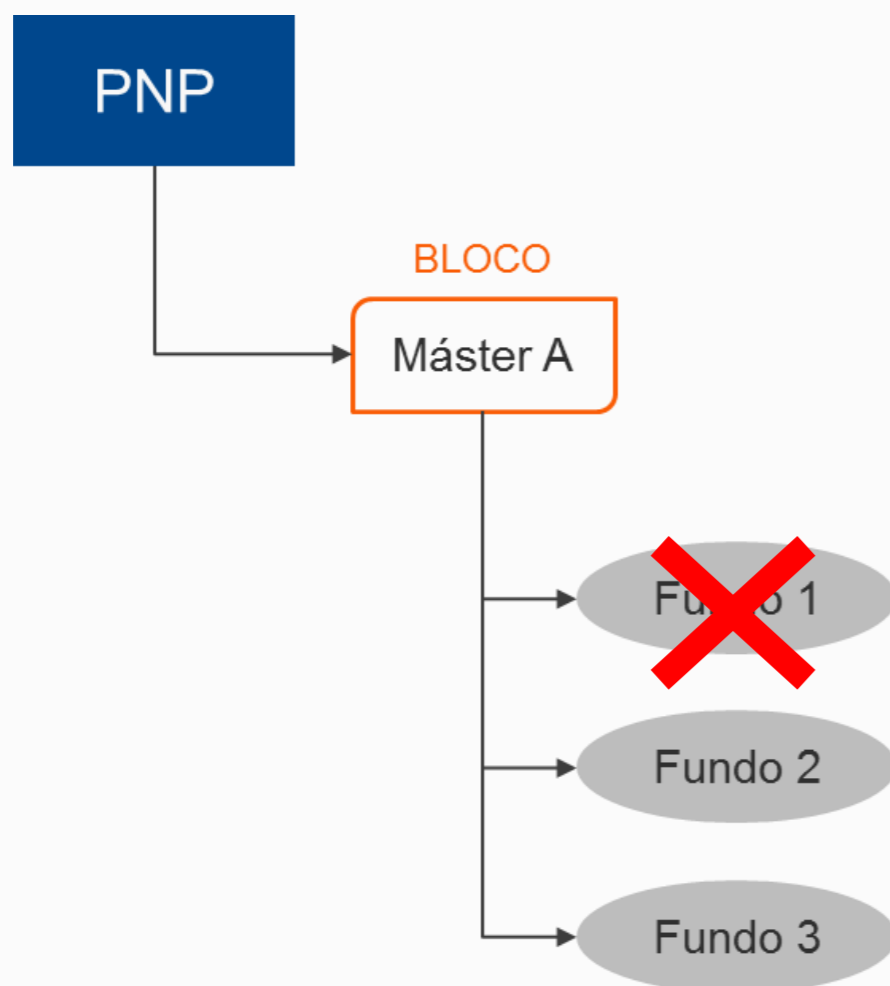
Número da Alocação	Quantidade	Preço Médio	Conta
100-1	1.250	10,375000	Master
100-2	750	10,375000	Fundo 2

Número da Alocação	Quantidade	Preço Médio	Conta
100-4	1.250	10,375000	Fundo 3
100-2	750	10,375000	Fundo 2

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[B]³ BRASIL
BOLSA
BALCÃO
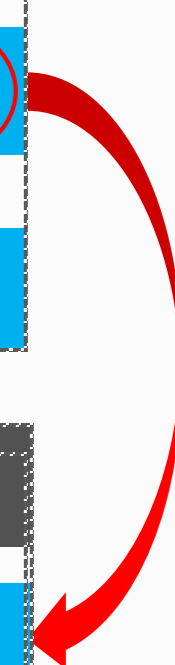
GENERAL RULES

Once the block is formed, **cancellation** of the block will be possible. In this scenario, the block is undone and the trades (allocationID) return to their original status.
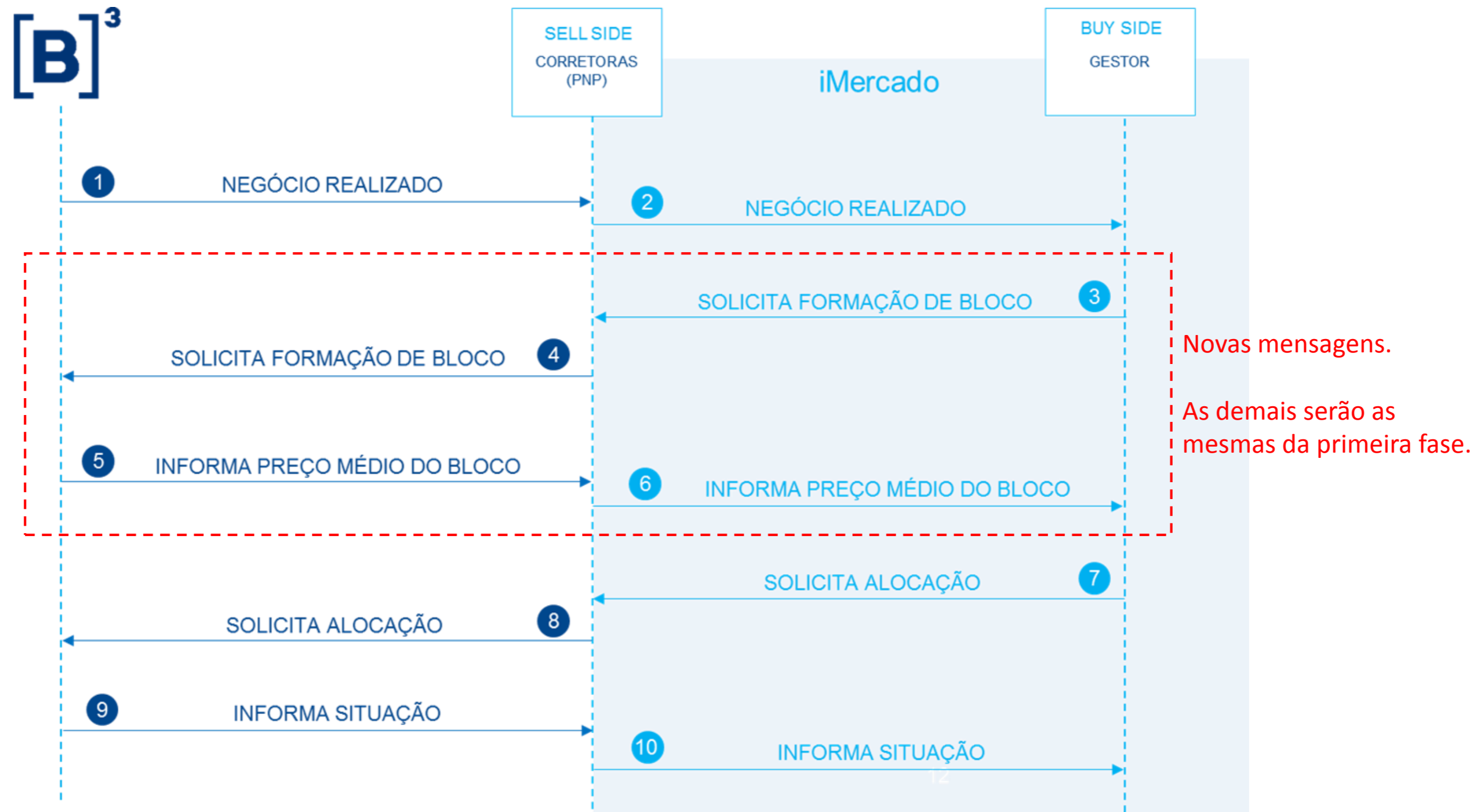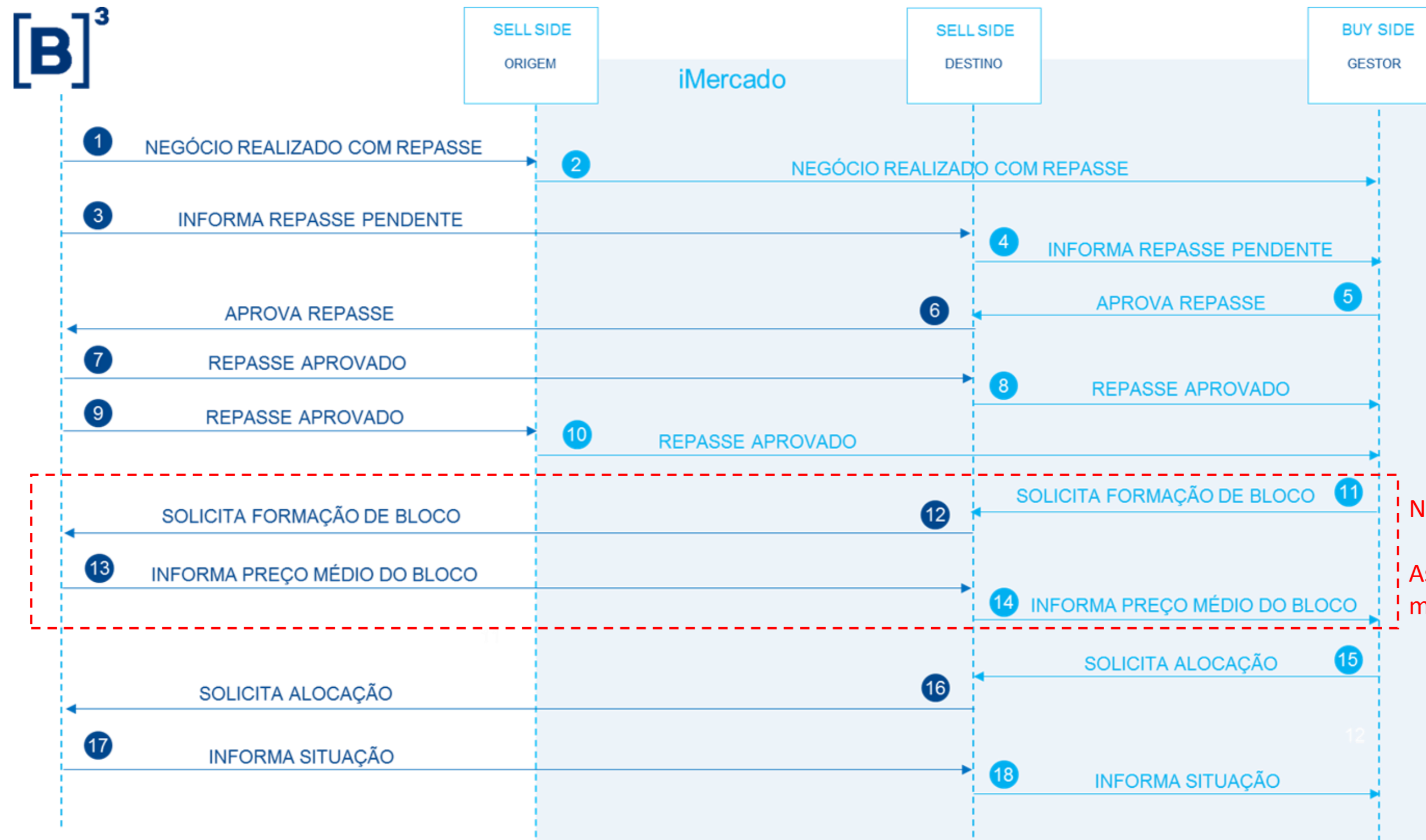
Example G – Block cancellation

PNP

BLOCO

Máster A

Número do Bloco	Quantidade	Preço Médio	Conta
100	2.000	10,375000	Máster A

PNP

NEGÓCIOS

Máster A

Número da Alocação	Quantidade	Preço	Conta
10-1	1.000	10,00	Máster A
10-2	500	10,50	Máster A
11-1	500	11,00	Máster A

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies
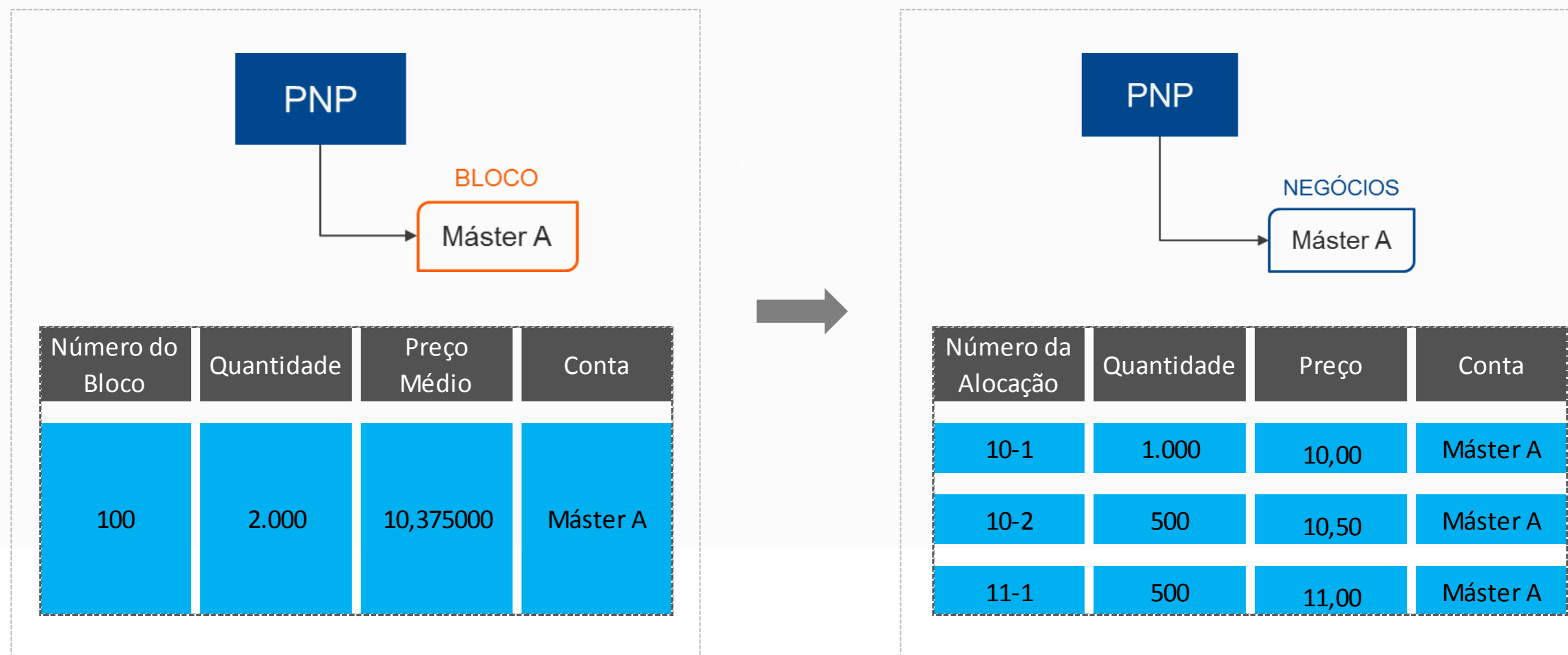
GENERAL RULES

- Trades (allocationID) for block formation must be allocated to the same account ("from account").

  - The session date, instrument and nature of the trades must be the same.

- For the master account, allocation by average price will be mandatory
  - For admincon and intermediary accounts, block formation and allocation by average price will be optional.

- Allocation at average price will be possible for the cash market.
  - We are looking into including futures, except for strategies and volatilities.

- Block formation from a block will not be possible.

- Block reconciliation process.

- The quantity belonging to a block which is not allocated by the allocation deadline will be allocated automatically to the participant's error account.

- Fee structure: Participants will have the necessary inputs to replicate the fee structure model.

PROJECT T+2: ALLOCATION BY AVERAGE PRICE

MESSAGE FLOWS WITH iMERCADO: BLOCK FORMATION AT THE EXECUTOR

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

PROJECT T+2: ALLOCATION BY AVERAGE PRICE

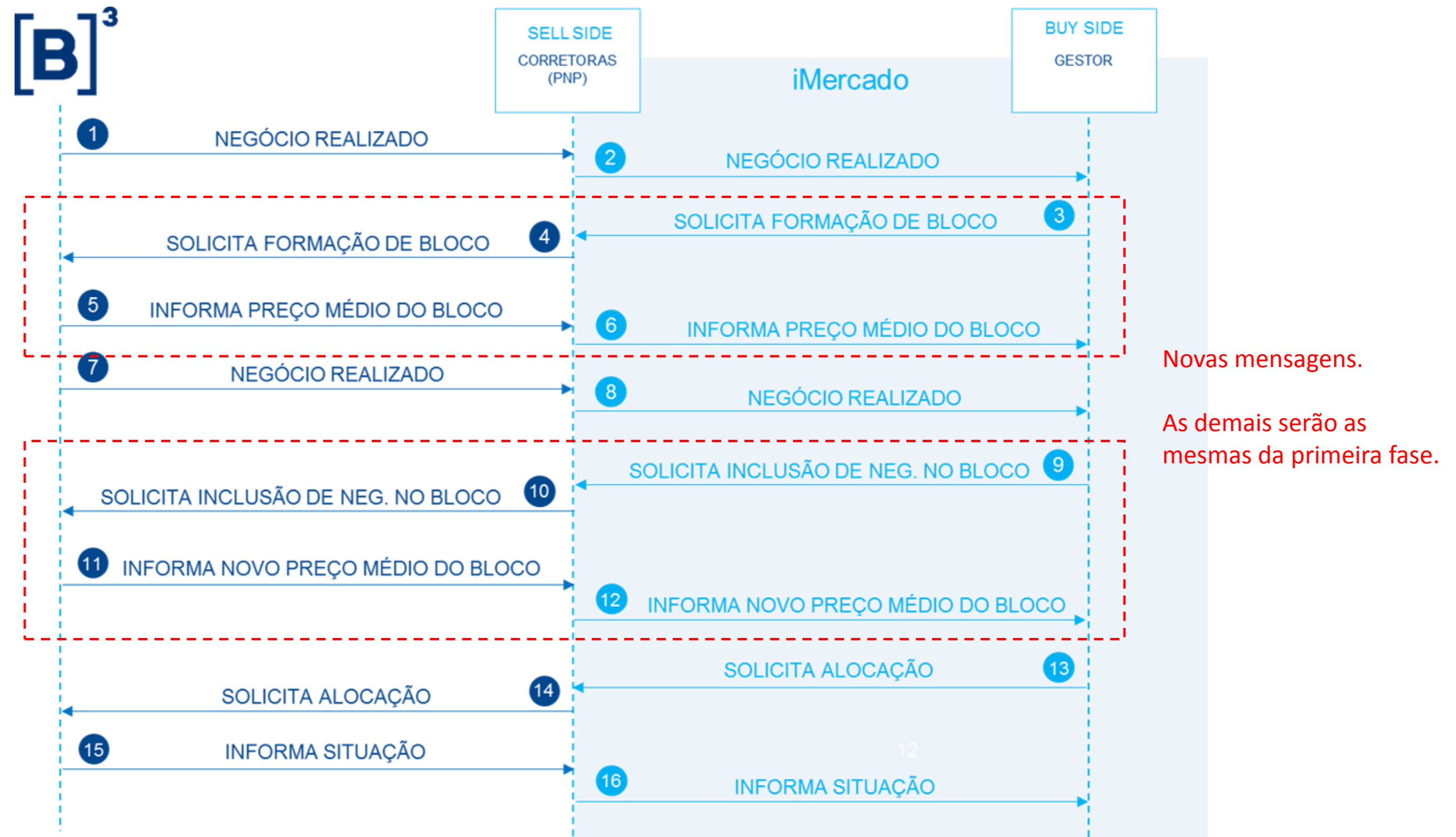MESSAGE FLOWS WITH iMERCADO: BLOCK FORMATION AT THE CARRYING PARTICIPANT

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

PROJECT T+2: ALLOCATION BY AVERAGE PRICE

MESSAGE FLOWS WITH iMERCADO: BLOCK FORMATION AT THE EXECUTOR WITH GIVE-UP

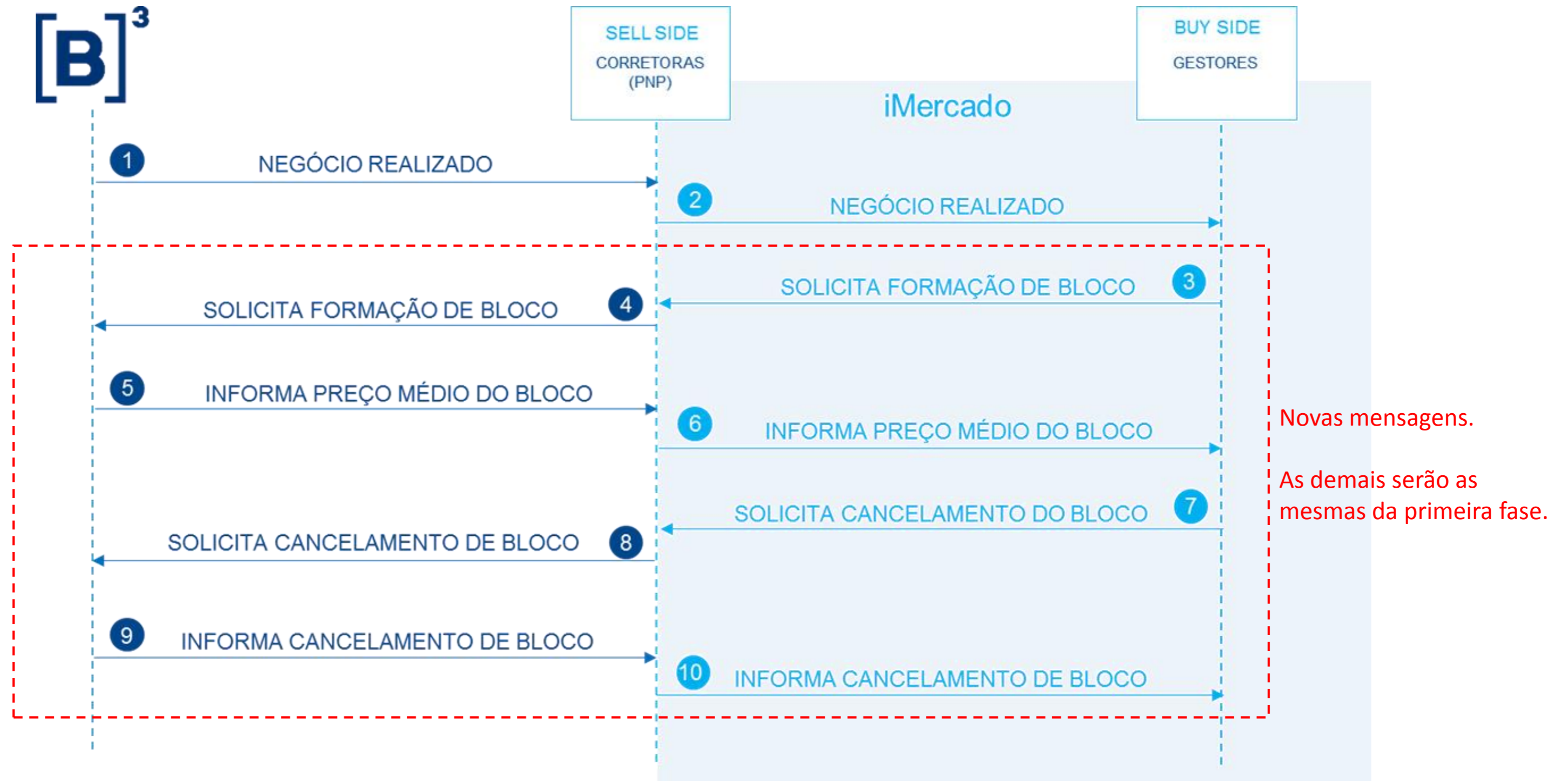Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies

PROJECT T+2: ALLOCATION BY AVERAGE PRICE
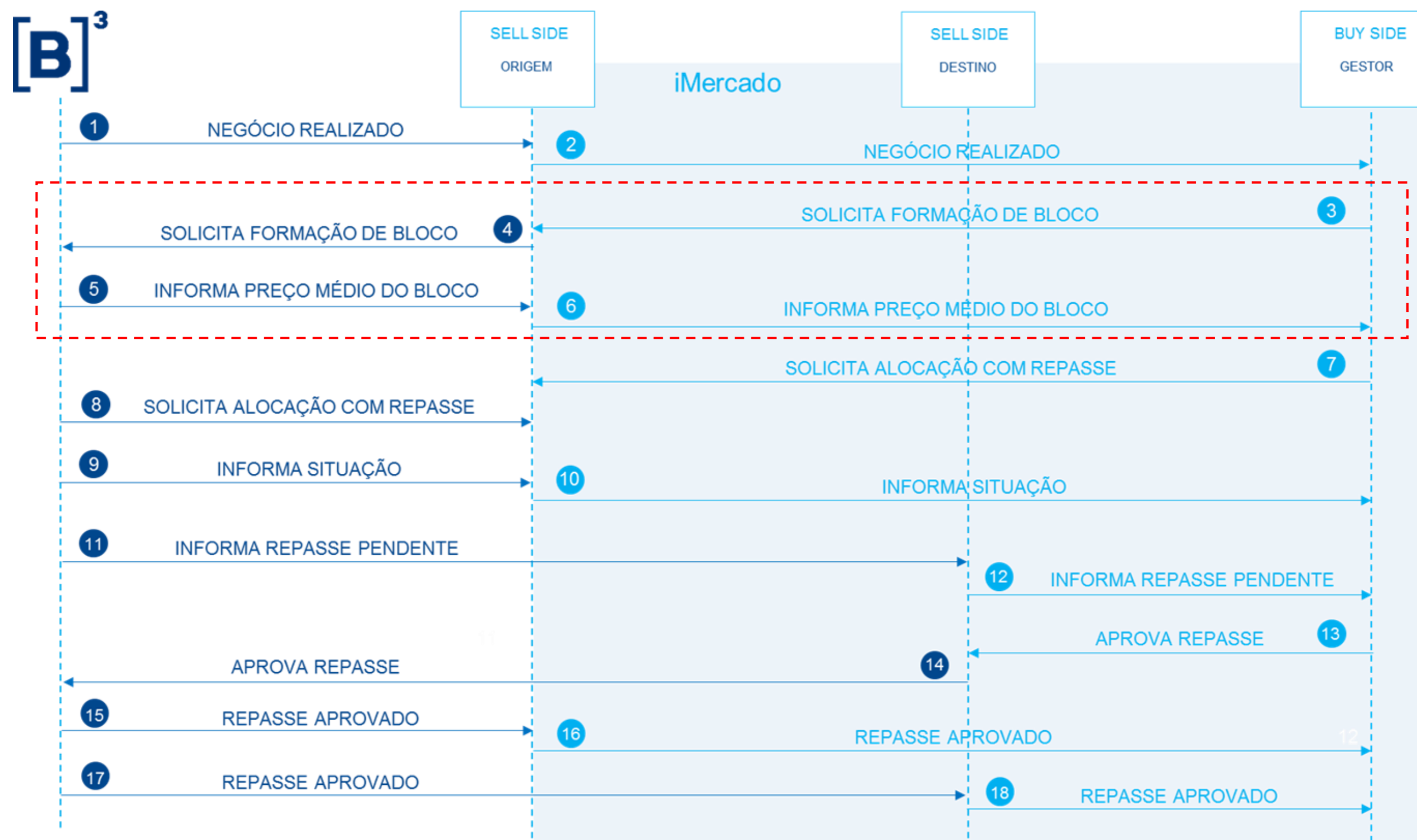
MESSAGE FLOWS WITH iMERCADO: INCLUSION OF TRADE IN THE BLOCK

Implementation of the T+2 Settlement Cycle Project depends on approval by the regulatory bodies
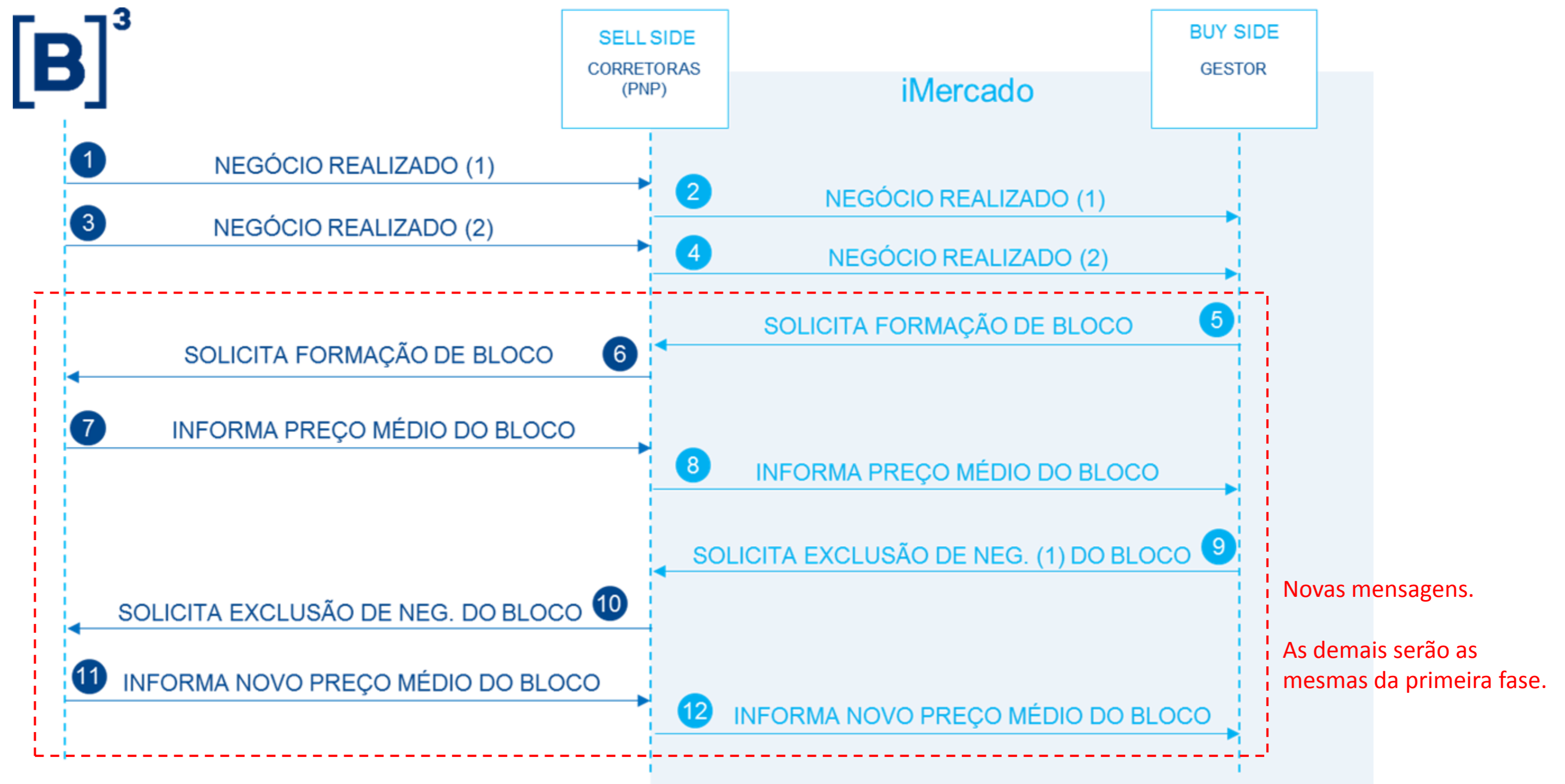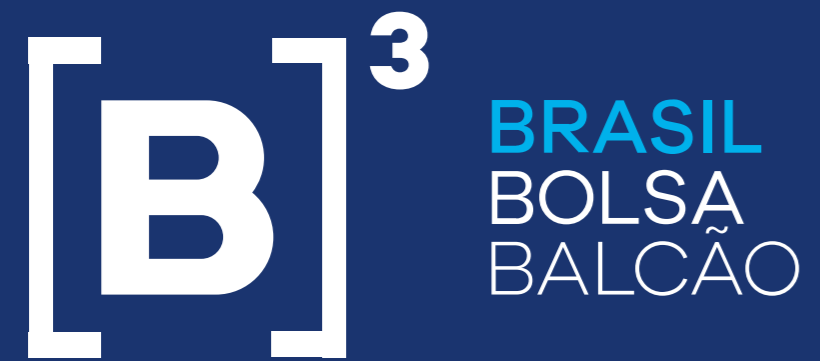
SCHEDULE

WRAP-UP

CONTACTS

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