CVM Resolutions 134 and 135

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Context

CVM Resolutions 134 and 135 stem from the Public Hearing SDM 9/2019 and have as their main objective:

✓ **Resolution 134** - To amend CVM Resolution 35 to provide for the best execution rule for orders in a competitive environment of trading venues.

✓ **Resolution 135** - To give new wording to CVM Instruction 461, introducing provisions in the regulations on the functioning of regulated securities markets and in the constitution, organization and functioning of the entities managing the organized market.

Key Topics

✓ Regulatory requirements

✓ Self-regulatory organization

✓ Best execution rule

✓ Internalization

✓ Block trades

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Regulatory requirements

✓ Bar to create an exchange maintained at a high level, prioritizing Brazilian Markets' integrity and quality, with advanced requirements of internal controls, risk management, governance, cyber security, and technology.

✓ Dispersed capital structure maintained (market participants up to 10% and other entities need previous CVM approval to go above 15%), emphasizing the independence and neutrality that an exchange must have.

Self-regulatory organization (SRO)

✓ Initially proposed single SRO model will not be implemented and organized markets (exchange and OTC) must create their own SRO or hire the services of an existing one.

✓ Exchanges must create a guarantee funds (MRP) aiming to protect retail investors.

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Best Execution

✓ CVM maintained the model proposed at the public hearing, in line with the European one, in which the duty of best execution falls on the intermediary.

✓ Best execution rules differentiate qualified and non-qualified investors: no changes in the case of qualified investors (client and intermediary set the parameters), for non-qualified investors, higher weight for total disbursement.

Internalization

✓ Internalization of orders still forbidden, emphasizing the transparency provided by the exchange and its importance for price discovering.

✓ Despite requests from intermediaries and consultation from the ministry of finance, CVM understands that the transparency and broad and isonomic access for all investors provided by the central order book are key to preserve high quality price discovery.

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Block Trades

✓ More flexibility to execute block-trades, allowing B3 to add innovative solutions to its resilient and efficient trading environment, always counting on the excellence in risk management of its CCP.

- B3 is prepared to be the first mover in announcing and implementing new execution functionalities and solutions for block-trades

✓ Block-trades could be executed in organized OTC:

- Platform must be previously approved by CVM
- Multilateral Matching Platforms requires a CCP
- Bilateral Matching Platforms does not require a CCP

✓ Size of a block-trade and the list of securities that could be executed in dedicated solutions (exchange and organized OTC) to be defined by CVM in the coming months:

- Expectation of preservation of price discovering in the central order book (exchange) should guide the definition of this parameter (see CVM press release)

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Block Trades

✓ A block-trade executed in a dedicated solution (exchange and organized OTC) must be indivisible

✓ Obstacles for institutional investors to execute a block-trade in an organized OTC:

- Regulation: some institutional investors (ex. Pension Funds) face regulatory restrictions to trade OTC
- Tax: there is no capital gain tax exemption for foreign investors in the OTC market
- CCP: some institutional investors face restrictions to settle transactions without a CCP or should, at least, implement significant changes to their risk approach, from a CCP assessment to a bilateral one

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Block Trades

✓ B3 was preparing for this change and is addressing the internalization of blocks with new products

		Currently implemented at B3		Tools under development by B3		
		RLP *Retail Liquidity Provider*	**DIRECT ORDERS**	**MPO** *Mid Point Order*	**PTA** *Point in Time Auction*	**RFQ** *Request for Quote*
Use of the offers	Small-sized offer	✔				
	Mid-sized offer		✔			
	Block			✔	✔	✔

Status	Pilot Stage	Operational	Under development

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