August 04, 2021
002/2021-BSM

E X T E R N A L C O M M U N I C A T I O N

To: Listed B3 Participants

Re: **Basic elements for BSM's Compliance with CVM Resolution 35/2021, Circular Letters 3/2020-CVM/SMI and 6/2020-CVM/SMI and External Communication 004/2020 – Listed B3 – Retail Clients**

1. Changes instituted by CVM Instruction 612/2019 and CVM Instruction 505/2011, subsequently substituted by CVM Resolution 35/2021, mean the Securities and Exchange Commission of Brazil (CVM) now emphasizes the regulatory aspects of information technology used by intermediaries, principally regarding electronic trading.

2. These questions were addressed in detail in Circular Letters 3/202-CVM/SMI, dated April 6, 2020, and 6/2020-CVM/SMI, dated August 18, 2020 (Circulars when referred to jointly), aimed at participants that provide trading platforms to access B3's systems and which are used by Listed B3 retail clients.

3. In this context, BSM Market Supervision (BSM) is responsible for monitoring and inspecting B3's participants, to validate compliance with the abovementioned rules.

4. This Guidance details a series of procedures that the participants must follow, helping to clarify doubts about what CVM, B3 and BSM consider adequate for compliance with the Circulars.

5. The Guidance is not intended to substitute or void resolutions contained in the existing normative documents, as its provisions are aimed at guiding participants' conduct and at clarifying their main doubts regarding the subject.

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BSM will perform a specific audit as of the final quarter of 2021, to verify whether participants are meeting their obligations. BSM will send a message to participants telling them when the audit will be held and will request the necessary evidence.

Please note that when the participants fail to comply with the matters covered in this Guidance, there may be a range of impacts, including cumulative ones, regarding enforcement processes and reimbursement requests drawn up by investors, which will be initiated and administered by BSM.

Further information can be obtained from BSM Market Supervision by telephone on +55 11 2565-6074 or by email at auditoria@bsmsupervisao.com.br.

André Eduardo Demarco
Chief Regulatory Officer

Annex I

MARKET GUIDANCE

This release (Guidance) sets out the basic elements that BSM Market Supervision (BSM) must observe when monitoring participants in the markets operated by B3 (participants), specifically Listed B3 retail clients, as pertains to CVM Resolution 35/2021, Circular Letters 3/2020-CVM/SMI, dated April 6, 2020, and 6/2020-CVM/SMI, dated August 18, 2020 (Circulars when referred to jointly) and B3 External Communication 004/2020-PRE.

This Guidance does not change the determinations of other normative documents as it seeks rather to detail the steps participants must take and to clarify what CVM, B3 and BSM consider appropriate for compliance with the applicable regulations.

This Guidance will therefore provide:

1. guidelines about basic steps required from the participants; and

2. a Q&A chart based on queries that BSM has received from the participants.

(1) Guidance about the basic requirements expected from the participants

Below we have drawn up the basic requirements expected for participants' compliance with the prevailing rules.

(1.1)   Service Level Agreement: maximum latency of the trading platforms

Participants with trading platforms that are used by Listed B3 retail clients must establish and disclose, in a clear, uniform, visible and easily accessible manner, for

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potential and current clients, a Service Level Agreement (SLA) that communicates the order processing maximum latency in the systems they manage, whether proprietary systems or systems that the participant has contracted with third parties. The figure below shows the order flow, from entry by the client to return message receipt, sent by B3 and received by the participant and its client.

Flow of orders entered by clients that access trading platforms
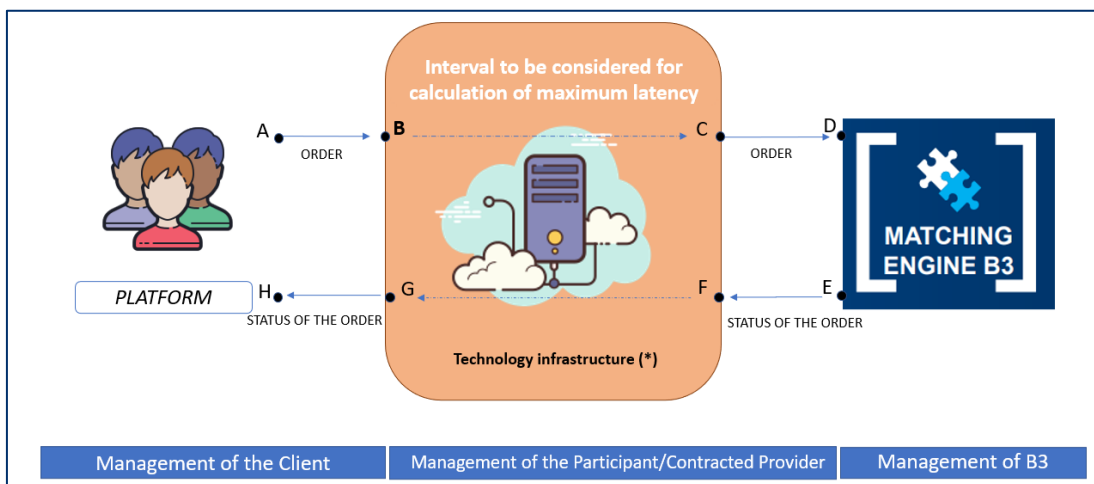
(*) This case involves solutions hosted inside and outside B3 Colocation, provided by Participants or software vendors.

Service level with maximum latency = time (B-C) + time (F-G)

Calculation of the metric for the maximum latency value published by the participant will consider the time interval from the order's arrival at the participant or software provider contracted by it, until it is sent to B3 (B-C phase), and the return of the order's status to the participant or software provider contracted by it, and its submission to the client (F-G phase).

The following do not need to be considered in the calculation:

(i) time interval between the order's entry by the client and its receipt by the participant, or software provider contracted by it (A-B phase).

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(ii) time interval between the order entry by the participant to B3 (C-D phase).

(iii) time of processing by B3 (D-E phase).

(iv) time interval between B3's message being sent to the participant (E-F phase).

(v) time interval between the return message being sent to the client (G-H phase).

After disclosure of the service level with the maximum latency offered, the participant must establish consistent and verifiable controls to assure compliance with the established and published values. These controls must as a minimum requirement register, explain and investigate the reasons for any noncompliance that is brought to light.

(1.2) Service Level Agreement: service time of the alternative channels

The participants that provide the trading platforms used by Listed B3 retail clients must establish and disclose in a clear, uniform, visible and easily accessible manner, for potential and current clients, a Service Level Agreement (SLA) for the service time of each of the alternative channels that exist for their clients, in the case of unavailability of the trading platform(s), including situations where there are processing peaks or similar.

Among the types of alternative client service channels are telephone, email, chat, or other trading platforms. The participant's contingency strategy may, for example, determine that a trading platform operate as a contingency for another trading platform, but as both are subject to failures, the participant must also provide other alternative channels so that the client can receive service and be able to transmit orders, with order transmission being understood as the entry of a new order, or the modification or cancellation of a previously entered order.

When establishing and disclosing the service level of the alternative channels, the participant must consider the period from the start of its interaction with the client up until the moment that the client is effectively able to execute the trade, for example,

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when being dealt with on the telephone. When the foreseen alternative channels are chat or email, the participant must consider the time interval from receipt of the investor's message up until order entry at the trading platform, assuming that the client has sent the necessary minimum information for order execution.

The participant must actively inform clients of the list of all alternative service channels, encouraging the clients to find out about these channels and to test them not only at the start of the relationship, but over time and whenever there are changes to these channels. If it provides more than one alternative channel, the participant must guide its clients to use as many as necessary until they receive service. The participant is responsible for establishing the order of preference of the service channels that the investor will access, without prejudice to its surveillance obligation of all the available channels.

In situations in which the alternative channels are also all unavailable, the participant must additionally maintain tools (such as a specific email address) that allow clients to register their orders, which function as a final alternative after the client has exhausted its contact attempts through the existing alternative channels. In these extreme situations, for the registration of the client's order to be fully understood and used, the participant must present clear instructions about the conditions of use of this tool and must define the minimum information required from the client, such as characteristics of the order to be executed (asset, quantity, price, nature, type), mention of the available alternative channels, among others that it deems relevant.

After publication of the service level agreement with the alternative channels' service time, the participant must establish consistent and verifiable controls to assure compliance with the values and provided channels. These controls must, as a minimum, register, explain and investigate the reasons for any noncompliance that arises.

(1.3) Guidance for stress test execution

The participant's technology infrastructure must be compatible with the volume, nature and complexity of its transactions. Therefore, the participant must perform stress tests at least annually, establishing plans of action when situations are identified in which increased demand might make trade processing unviable.

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For the stress tests to obtain the desired results, the participant must identify the largest volume (trading peak) observed since January 2020, add an increment that it defines and then perform tests to assess the compatibility of the infrastructure in light of this increase. Furthermore, the stress test must encompass, at least, the participant's own trading infrastructure, as well as infrastructure provided by third party providers, including at the B3 Data Center (when managed by the participant).

BSM will assess compliance with the stress tests in its 2022 audit plan, with the observation that the participant must have performed its first test stress in 2021.

(1.4)   Contracts signed with external providers of relevant services

Relevant services are considered those whose interruption or unavailability would generate significant negative impacts on the participant's business. In this sense, the participants must classify as significant, at a minimum, the trading platforms that they provide, or which are provided by third-party software providers, through which the participant contracts or enables the client.

For third-party services that the participant classifies as relevant, the contractual instruments entered into by these third parties must contain clauses[1] for the integrity and provision of information regarding service, data recovery, and information processed or stored by the service provider, as well as the obligation of maintaining it for at least five years. The contractual instruments entered into cannot limit or be an obstacle to access by BSM to its content, documents, data and information processed or stored by the service provider.

In addition to these clauses, BSM will analyze contracts entered into with the main service providers to guarantee the existence of clauses of the Service Level Agreement, confidentiality of the information and term of the contract or equivalent form.

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[1] For the contracts in this category, the participant must verify whether all the clauses are applicable, considering the characteristics of the services provided.

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(1.5) Contracting or use by clients of trading platforms

The participant must perform its duties transparently regarding central aspects of contracting or use of the trading platforms provided to its clients. BSM considers as examples of this transparency the participant publishing the following information for clients:

(i) ways to contract the platform: description of what the client should do to contract the trading platform.

(ii) related costs: details of the total costs for trading platform use and, if applicable, for test environment use.

(iii) functionalities of the tool: identification of where the client can find out about how the platform works. This could mean a manual for use of the platform, for example.

(iv) ways to test the platform and its functionalities: in the case of trading platforms that use trading algorithms, a test or mock environment must be provided.

(v) contingency procedures, steps to take in the case of platform unavailability and instability, and forms of incident notification: detailed instructions to inform the client of trading platform unavailability and instability and of actions that the participant recommend the client takes, such as to seek alternative channels for order entry in the case of channel unavailability.

(vi) available platform types, algorithms and responsibilities designated in each case: specification of whether the trading platform is unicast or multicast[2], uses black box or white box[3] algorithms and, in each case, which are the responsibility of the participant, software provider (if applicable) and client.

(vii) audit trails: these detail which transactions are registered in logs stored by the participant, showing the time that the information is held.

(viii) ways of updating information provided to the client: these specify how the client may certify that information seen on the trading platform is up-to-date or designate where updated information can be seen regarding

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[2] Unicast – The positions seen in the tool are only those that originating from the platform itself. Multicast – The client sees all transactions, regardless of the platform from which they originated.
[3] Black box – The software provider defines the parameters in advance, making the client less likely to customize, for example: it only allows definition of the entrance price and exit price. White box – allows the client to define all the parameters.

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orders' status, custody positions, orders and transactions, limits, and asset quotations.

In addition to the above considerations, the participant must provide and highlight on its webpage, its applications, and its other channels for interaction with the client, the following message: "Every order transmitted by internet is subject to interruption or delay, which may prevent or prejudice order entry or the receipt of updated information related to: (a) orders' status; (b) custody, transaction and limit positions; and (c) asset quotations."

When the participant offers the use or contracting of trading platforms with black box algorithms, the participant must assess, at least once a year, the risks involved, in particular the risk of the algorithms failing and presenting unexpected behavior.

(2) Q&A chart regarding queries received from the participants

In the chart below, we have consolidated the questions and answers regarding queries that BSM has received from the participants since CVM published the Circulars.

Questions	Answers
To which participants do the Circulars apply?	The Circulars are aimed at participants that provide trading platforms to their Listed B3 retail clients, with the trading platforms used by other types of clients not being applicable. Transactions executed at the trading desk or by self-employed investment agents are not covered by the rules established in the normative documents either.
Are the Circulars applicable to participants that provide home broker and mobile applications?	Yes. The established rules apply to all trading platforms that the Listed B3 retail clients use, including home broker and mobile applications.
Are the Circulars applicable only to trading tools that use the Order Management System (OMS) for order management?	The established rules apply to all the trading platforms used by Listed B3 retail clients, regardless of the type of order manager, which includes for

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Questions	Answers
	example Execution Management System (EMS) or another equivalent solution.
Can I publish the maximum latency of the trading platforms and service times of the alternative channels in a restricted area?	The Service Level Agreements must be made available to the clients and potential clients, that is, in public areas and trading channels.
To comply with Circular 3/2020-CVM/SMI, may I publish the average minimum and maximum latency of the trading platforms?	To make the Service Level Agreements clear for the clients, the participant must publish, at least, maximum values, including at demand peaks.
May I establish a margin of trust for the latency indicator of the trading platforms or for the service time of the alternative channels?	There is no impediment to the participant announcing a trust level for the Service Level Agreement regarding the latency of the trading platforms and the service time of the alternative channel. However, the participant must also foresee the maximum service values, including during demand peaks.
Should I publish the Service Level Agreement values in an individualized manner, per trading platform or alternative channel, or in a unified way encompassing all trading platforms or channels?	It is at the participant's discretion to publish a Service Level Agreement by trading platform or alternative channel or as a single value that encompasses all the available trading platforms and alternative channels, as long as they are clear to which trading platforms and channels the Service Level Agreement refers.
Does the publication of maximum latency values have the effect of inducing the investor toward making a mistake regarding the speed and execution of its orders, leading them, for example, to the mistaken belief that the maximum values also measure the time interval up until the receipt of the confirmation message	To mitigate the risks of a mistaken interpretation, by its client, the participant must clearly inform them that the published maximum latency values refer exclusively to the processing time of the order within its own infrastructure, disregarding latency inherent to the transit of the order in the infrastructures that are out of its control.

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Questions	Answers
for its order, sent via the trading platform?	
How often should I update the Service Level Agreements?	The participant may update Service Level Agreements regarding maximum latency of the trading platforms and service time of the alternative channels whenever it judges necessary and for this reason must maintain an accessible record of all changes, with the respective validity dates of each agreement.
Can I use the values that were calculated for compliance with CVM Instruction 380/2002 as sufficient for compliance with Circular 3/2020-CVM/SMI?	For compliance with Circular 3/2020-CVM/SMI, you must sign a Service Level Agreement regarding the maximum latency of the trading platforms, including during peak demand times.
Regarding the trading participant (TP), should the calculation of the maximum latency value that it will announce to its clients also encompass order routing through the infrastructure of the full trading participant (FTP)?	All the infrastructure used for order routing should be considered for calculation of the maximum latency.
How should I treat those orders that are received at the end of the trading session that are outside of the service time of the alternative channel?	The participant must inform clients in advance of how these orders will be treated.
Are there maximum values that can be announced to clients regarding the maximum latency of the trading platforms and for the alternative channels' service time?	The maximum latency values are a product of the technology and operating infrastructure of each participant, as well as its trading model, varying from case to case. The prevailing rules, as well as the CVM Circulars do not impose compliance with a possible acceptable latency maximum value. However, the publication of the service level and maximum latency that the participant offers its

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Questions	Answers
	clients must be observed by the participants in their best order execution duties.
Should I provide clients with a trading platforms test environment?	In the case of trading platforms that provide trading algorithms, you must provide clients with a test or mock environment. In the other situations it will be sufficient for the participant, for example, to provide a guidance manual for the platform or another way for the client to find out about the platform's functionalities before it begins using it.
Should the recommendations of Circular 6/2020-CVM/SMI be disclosed to potential clients?	The Circular 6/2020-CVM/SMI recommendations must be contained in the client's restricted access area, but there is nothing to stop the participant from providing the information in the public access areas of potential clients.
What does BSM expect from publication of the synchronization time of information provided to clients at the trading platform?	Solutions that designate the update time, or which contain commands actionable by the client itself to update the information, are acceptable ways to comply with the rule.
Should I sign a new contracting agreement with my clients or an addendum for use of the trading platforms incorporating the guidelines suggested in Circular 6/2020-CVM/SMI, even though these are users that have already accessed the trading platform before the Circular came into effect?	The guidelines must be made available on the internet page and in the contracting agreement for the trading platforms to which new clients subscribe.
What does BSM expect from the participants regarding the item "Responsibilities involved in the use of each type of trading platform" of Circular 6/2020-CVM/SMI?	The participant is expected to formalize in the contracting agreements which are its responsibilities and which are those of the trading platform provider in regard to service provision.
Which trades should be considered in the item "Audit trails" in the agreement for trading platform	The participant must consider, at least: (a) login and logoffs of the client; (b) client order entry,

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Questions	Answers
contracting or use, foreseen in Circular 6/2020-CVM/SMI?	modification and cancelation; and (c) order origin (IP or equivalent method).
Can I use the Activity Rules and Parameters to disclose the participant's information?	It is up to the participant to decide the best way or instrument for disclosure, if it does so in an easily accessed area and it is highlighted, clear and objective, to prevent client error. The Activity Rules and Parameters may be used as a means of disclosure, if these same principles are followed.

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