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SECURITIES CLEARINGHOUSE PROCEDURE MANUAL

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1. DEFINITIONS

The following terms are used as defined below in this Procedure Manual, as well as those established by the Securities Clearinghouse Rulebook whenever they do not conflict with the terms redefined here for present purposes:

BM&FBOVESPA S.A. – The Brazilian Securities, Commodities and Futures Exchange, a corporation that operates Brazil's organized securities markets and whose principal function is to maintain systems for securities trading, auctions, and special operations involving stocks, bonds, rights and other assets, as well as managing securities clearing, settlement and custody systems.

Clearinghouse [Câmara] – BM&FBOVESPA's Securities Clearinghouse.

SPB Message Catalogue [Catálogo de Mensagens do SPB] – Document that establishes and distributes all messages carried by the National Financial System Network (RSFN) for communication between the Central Bank of Brazil, clearinghouses, financial institutions and other authorized entities.

Custody Accounts [Conta de Custódia] – Accounts held with Selic by participants and the Clearinghouse to receive, safeguard and transact with government bonds, including those used in the settlement process, for collateral pledges and withdrawals, and in services provided by the Clearinghouse.

Depository [Depositária] – A legal entity authorized to provide fungible and non-fungible custody services.

Final Buyer [comprador final - CF] – The participant that, in any given Transaction, acquires a Security or undertakes a commitment to acquire one on a future date.

Settlement Window [Janela de Liquidação] – The period during which settlement is processed, with participants and the Clearinghouse delivering securities and making due payments.

Net Financed Balance [Posição Líquida Financiada] – A participant's right to receive funds calculated by netting the long and short positions resulting from generic collateral repo transactions due for settlement on the day in question and having the same settlement date as the repo transactions.

Net Financing Balance [Posição Líquida Financiadora] – A participant's obligation to pay funds calculated by netting the long and short purchase and sale positions resulting from generic collateral repo transactions due for settlement on the day in question and having the same settlement date as the repo transactions.

RSFN – Acronym for the National Financial System Network, a data communication structure using network technology for the purpose of supporting message traffic between financial institutions, clearinghouses and other entities in the Brazilian Payment System (SPB).

Selic – The Special Settlement & Custody System administered by the Central Bank of Brazil.

SET – Acronym for the Securities Lending Facility operated by the Clearinghouse via Sisbex, involving securities-driven repos, loans and interchanges.

Sisbex – The Exchange's system for electronic registration and trading of bonds and other assets, linked to the Clearinghouse.

STR – Acronym for the Reserve Transfer System, the Central Bank of Brazil's real-time gross settlement system for interbank funds transfer.

Selic Rate [Taxa Selic] – Weighted average of the interbank overnight interest rates for repos with or loans of federal government securities, computed via Selic.

2. ACCREDITATION OF PARTICIPANTS

2.1 Participants

2.1.1 Introduction

The operational design of the Clearinghouse takes into account the complete array of participants in the market for government bonds, from the National Treasury and Central Bank of Brazil, which issues the securities in question, to the customers of participating institutions.

The following summarized descriptions of the categories of participants in the Clearinghouse are presented for the purposes of this Procedure Manual.

2.1.2 Clearing Member (MC)

A Clearing Member, or institution considered equivalent for the purposes of settling transactions through the Clearinghouse, is accredited to provide clearing and settlement services to Securities Trading Participants in transactions involving federal government bonds performed by them or registered with Sisbex for their own account or for customers. MCs pledge collateral to the Clearinghouse, which sets trading limits for them.

2.1.3 Centralized Settlement Participant (PLC)

A Centralized Settlement Participant is accredited to clear and settle directly with the Clearinghouse federal government bond trades performed for its own account via Sisbex or registered with Sisbex.

PLCs pledge collateral to the Clearinghouse, which sets trading limits for them.

Investment funds open and closed pension funds, insurance companies and local reinsurers may be accredited as PLCs. The criteria for PLC accreditation are published by BM&FBOVESPA in Circular Letters.

A PLC trades directly or via its Master PLC or via any Securities Trading Participant, in the latter case transmitting orders directly or through its Master PLC. All rights and obligations arising from such transactions are immediately transferred to the PLC when appointed to be the participant responsible for them by the Master PLC or Securities Trading Participant involved.

2.1.4 Securities Trading Participant (PNA)

A Securities Trading Participant, or institution considered equivalent for the purposes of settling transactions through the Clearinghouse, is accredited to perform and register transactions with government bonds for its own account and for customers via Sisbex. Any legal entity authorized by the Central Bank of Brazil to perform and intermediate transactions with government bonds may be accredited as a PNA.

To register such transactions, a PNA must appoint a MC or PLC to be responsible for clearing and settlement. Acceptance by the Clearinghouse of transactions performed by PNAs for their own account and for customers is subject to compliance with the limits set for such transactions by the MC and the MC's limit with the Clearinghouse.

2.1.5 CF

CFs are individual investors or legal entities that trade in government bonds via PNAs. They may not pledge collateral directly to the Clearinghouse and their transactions affect the trading limits of PNAs and MCs.

The rights and obligations arising from CFs transactions create rights and obligations for CF with regard to PNA, for PNA with regard to MC, and for MC with regard to the Clearinghouse. Settlement of a CF's rights and obligations with regard to a PNA and of a PNA's rights and obligations with regard to a MC follows mutually agreed procedures.

2.1.6 Settlement Bank (BL)

A Settlement Bank is a financial institution that participates in the STR. Funds are transferred between participants and the Clearinghouse by BL, which perform such services for participants by contract.

2.1.7 Custodian (CST)

A Custodian is a financial institution that provides securities custody services in Selic and is responsible for safekeeping, transferring and otherwise dealing with securities for the account of and as instructed by the users of its services, among other things to enable them to discharge obligations to the Clearinghouse. All MC, PNA, PLC and CF transfer securities to and from the Clearinghouse through CST, which perform such services by contract.

A CST may register more than one operating code with the Clearinghouse in order to facilitate internal control.

2.1.8 Master PLC (PLM)

A Master Centralized Settlement Participant is an institution accredited by the Clearinghouse to perform transactions and transmit orders to PNAs on behalf of PLCs. Each PLM must tell the Clearinghouse which PLC is responsible for a given transaction within the time limit set for this purpose by the Clearinghouse.

2.1.9 PLC Administrator (ADM)

A PLC Administrator is an institution accredited by the Clearinghouse to perform transactions using the latter's systems on behalf of PLCs in the cases specified in this Procedure Manual.

2.1.10 Messenger (MSG)

A Messenger is an institution authorized to send and receive messages via the RSFN for the account of and as instructed by the users of its services.

2.2 Accreditation & Registration Requirements

2.2.1 General

Clearinghouse participants must be duly registered with the Clearinghouse before starting to perform their activities.

Institutions that wish to operate as MC, PNA, PLC, BL, CST, PLM or ADM must submit a formal application for accreditation with all the required documents, including but not limited to:

- the appropriate application form, duly completed;

- contracts and other documents demonstrating their links with other participants and, where required, containing standard clauses established by BM&FBOVESPA;
- copies of the institution's articles of incorporation, bylaws and other constitutive documents, as well as licenses, permits and/or authorizations from the competent bodies.

Institutions are accredited in the requested category only if they comply with all the criteria and procedures established in the Clearinghouse Rulebook and in the Circular Letters issued by BM&FBOVESPA. The Clearinghouse analyzes the documentation submitted to ensure that the applicant is eligible for accreditation in the requested category and formally advises the applicant as to whether it has been accepted.

Each accredited and duly registered participant is given an operating code and password for access to the Clearinghouse's systems. CST may be given more than one operating code and password. All codes and passwords are registered with BM&FBOVESPA's Central Registry of Participants.

2.2.2 Document Submission

The Clearinghouse requires participants to submit specific documents for the purposes of registration and accreditation. Documentation requirements vary depending on the category, as established in Circular Letters distributed by BM&FBOVESPA.

Participants bear sole responsibility to BM&FBOVESPA for the authenticity of the documentation and other information submitted and for ensuring they are always up to date.

2.2.3 Registered Contractual Relationships

Contractual relationships between participants in BM&FBOVESPA's systems are established during the registration process in accordance with the documentation submitted by them.

Participants with a required contractual relationship must both be accredited for the relationship in question to be recognized by the Clearinghouse. When one of the participants is already accredited, the applicant formally requests recognition of the relationship, which must be confirmed by the already accredited participant.

The following contractual relationships are required:

- PNA with MCs;
- MC, PLC, PNA and CST with two BLs each, one of them secondary;
- MC, PLC, PNA and CF with one CST each;
- BL with one MSG each.

A CF's registered relationship with a CST is established via the Custody Account named when the CST is registered. CST is responsible for naming their CFs' Custody Accounts.

MC, PLC, PNA, PLM and CF may register contractual relationships with one MSG each, provided the rules for using the RSFN are complied with.

A PLC may register a contractual relationship with a PLM for the purposes of transmitting orders to a PNA, or performing or registering transactions. A PLC may register a

contractual relationship with an ADM for the purposes of performing Clearinghouse operational procedures on its behalf.

2.2.4 Changes to Registration Details

BM&FBOVESPA processes changes to registration details when requested by participants, which must submit the requisite documentation.

BM&FBOVESPA also processes changes to registered contractual relationships when formally requested by participants, as well as new required relationships.

If a PNA changes the MC with which it has a registered contractual relationship, the rights and obligations arising from already accepted transactions are transferred to the new MC.

Changes to registered contractual relationships are subject to risk assessment as stipulated in the Clearinghouse Risk Management System Manual, and may be rejected as a result of such assessment.

2.3 Connection to the Clearinghouse

Participants can perform a large part of their activities using Clearinghouse system screens, or alternatively the messaging service specified in the SPB Messaging Catalogue. Some activities can be performed only via such screens, others via the messaging service.

Infrastructure and equipment requirements for connection to the Clearinghouse and the respective table of fees are detailed in Circular Letters distributed by BM&FBOVESPA.

3. ASSET MANAGEMENT

3.1 General

The purpose of the Asset Management system (GA) is to maintain and control the balances held in the Selic and bank accounts for which the Clearinghouse is responsible, as well as any and all transfers into and out of such accounts.

The GA system is used to control collateral recomposition calls and compliance with such calls by participants, as well as requests for transfers of securities and the processing of events affecting securities posted to the Clearinghouse's Collateral and Deposit Accounts.

Through its screens, files or messages, the GA system permits real-time segregated viewing of balances according to the purpose for which the corresponding pledges were made, as well as control of the collateral pledges, withdrawals, transfers and recomposition transactions effected during the day.

Files and messages are published on the internet (www.bmf.com.br) and via the SPB Message Catalogue respectively.

In specific situations described in this document and in its Risk Management System Manual, the Clearinghouse may suspend transactions of all kinds involving a given security and/or new pledges of a given security to its Collateral and Deposit Accounts.

3.2 Structure of Asset Maintenance Accounts

3.2.1 Collateral Accounts

The Clearinghouse holds Collateral Accounts with Selic and banking institutions.

i. Selic

The purpose of the Clearinghouse's Collateral Account with Selic is to hold collateral pledged in securities by MCs and PLCs.

Securities pledged to the Collateral Account are taken into consideration by the Clearinghouse Risk Management System for the purposes of computing trading limits and can be used, in accordance with the procedures described in this Manual, for settlement of:

- Obligations in the Settlement Window;
- Trades involving gross settlement of the obligation to deliver securities (covered trades);
- Transactions performed via the Securities Lending System (SET).

ii. Banking Institutions

The purpose of the Clearinghouse's Collateral Accounts with banking institutions is to hold cash collateral pledged by MCs and PLCs.

Funds posted to the Clearinghouse's Collateral Accounts are taken into consideration by its Risk Management System when computing trading limits and may be used to settle obligations during the Settlement Window, in accordance with the procedures described in this Manual.

3.2.2 Deposit Account with Selic

The purpose of the Clearinghouse's Deposit Account with Selic is to hold securities for use in the settlement of:

- Trades requiring gross settlement of delivery obligations;
- SET transactions.

The Deposit Account holds securities purchased in public offerings and used in rediscount transactions when settlement is effected via the Clearinghouse in accordance with 6.7 and 6.8 below.

The Deposit Account is also used to process regularization in the event of failure to delivery securities, as set forth in Section 7 below.

Securities posted to the Deposit Account are taken into consideration by the Clearinghouse's Risk Management System when computing trading limits for the purposes of accepting trades that entail the obligation to deliver securities.

3.2.3 Mutualized Fund Accounts

The Clearinghouse has Mutualized Fund Accounts with Selic and banking institutions. Their purpose is to hold securities and funds pledged by MCs to the Guarantee Fund provided for in the Clearinghouse Rulebook.

Securities and funds posted to Mutualized Fund Accounts are taken into consideration by the Clearinghouse's Risk Management System when computing trading limits.

3.3 Asset Movement

3.3.1 Asset Pledges & Deposits

i. Securities

Participants may request pledges or deposits of securities in the Clearinghouse's Collateral, Mutualized Fund and Deposit Accounts.

The stated purpose of pledges to Collateral Accounts must be "trade collateral" or "cover age of trading risk". The stated purpose of pledges to Mutualized Fund Accounts must be "mutualized fund".

The stated purpose of deposits in the Deposit Account must be "deposit", "coverage of trades", "SET", "regularization of delivery" or "regularization of delivery service".

The stated purpose of deposits in the Deposit Account involving securities purchased in public offerings and used in rediscount transactions when settlement is effected via the Clearinghouse in accordance with 6.7 and 6.8 below must be "rediscount settlement" or "auction".

The flow of pledges to Collateral and Mutualized Fund Accounts comprises the following steps:

- MC, PLC or ADM requests pledge via GSA system screens or, when MSG is associated, via message LDL1002;
- Clearinghouse checks request's compliance with all conditions established for pledge;
- Clearinghouse notifies MC, PLC or ADM of pledge request acceptance or denial via GA system screens or, if requester has associated MSG, via LDL1002R1;
- If request is accepted, MC, PLC or ADM confirms request via GA system screens or, when MSG is associated, via LDL1003;
- If participant requesting securities movement is different from CST responsible for movement, Clearinghouse notifies CST of pledge request via GA system screens or, if CST has associated MSG, via BMA3001;
- Also in these cases, CST accepts or denies securities movement request via GA system screens or, when MSG is associated, via BMA3002;
- Also in these cases, CST accepts and states number to be used in Selic transfer order, or denies securities movement request via GA system screens or, when MSG is associated, via LDL1003R1;
- In all cases, Clearinghouse and CST send securities transfer order to Selic (SEL1023 or Selic terminal);
- Once pledge has been made to Selic, Clearinghouse systems are updated and MC, PLC or ADM is notified via GA system screens or, if MSG is associated, via LDL1003R1.

The flow of deposits in the Deposit Account comprises the following steps:

- PNA, PLC, ADM or CST (for deposits in CF's name with "deposit" as stated purpose) requests deposit via GA system screens or, if MSG is associated, via message LDL1002;
- Clearinghouse checks request's compliance with all conditions established for deposit;
- Clearinghouse notifies PNA, PLC, ADM or CST of deposit request acceptance or denial via GA system screens or, if requester has associated MSG, via LDL1002R1;
- If request is accepted, PNA, PLC, ADM or CST confirms request via GA system screens or, when MSG is associated, via LDL1003;

- If participant requesting securities movement is different from CST responsible for movement, Clearinghouse notifies CST of deposit request via GA system screens or, if CST has associated MSG, via BMA3001;
- Also in these cases, CST accepts or denies securities movement request via GA system screens or, when MSG is associated, via BMA3002;
- Clearinghouse informs securities movement requester of CST's response via GA system screens or LDL1003R1;
- In all cases, Clearinghouse and CST send securities transfer order to Selic (SEL1023 or Selic terminal);
- Once deposit has been made with Selic, Clearinghouse systems are updated and PNA, PLC, ADM or CST is notified via GA system screens or, if MSG is associated, via LDL1003R1.

Collateral pledge or deposit requests addressed to the Collateral and Mutualized Fund Accounts will be processed only when the account holding the securities (drawer) is the requester's own Custody Account.

Requests by PNA to deposit securities in the Clearinghouse's Deposit Account with "rediscount settlement" or "auction" as stated purpose will be processed only when the drawer is the requester's own Custody Account. Requests by PNA to deposit securities in the Clearinghouse's Deposit Account with "SET" or "coverage of trades" as stated purpose will be processed when the drawer is the requester's own Custody Account, CF 1's Custody Account (for PNA that are not banking institutions), CF 2's Custody Account, or individualized accounts not held in the name of PNAs or PLCs.

Deposits drawn against CFs accounts as established in the previous paragraph create a balance for the PNA that requested the deposit and are considered in the acceptance process for transactions performed by that PNA. CF identification occurs not during the transaction itself or during its registration, but during the transaction specification process described in Section 6 below.

Deposits flagged "rediscount settlement" or "auction" as stated purpose indicate the participant's intention of effecting the settlement of a rediscount or public offering purchase transaction with the assistance of the Clearinghouse. Securities thus acquired can be used by participants to discharge their net delivery obligations for the same securities in the Settlement Window. This intention may be cancelled before the deposit is confirmed via a dual command from the requester and the Clearinghouse. In this case the participant must request cancellation via the GA system screens or, if an MSG is associated, via message BMA3005, and if the request is accepted by the Clearinghouse, must send message SEL1400 or order cancellation via a Selic terminal.

Deposits flagged "rediscount settlement" or "auction" as stated purpose are effected during the Clearinghouse's Settlement Window, as detailed in Section 6 below.

ii. Cash

Participants may request pledges or deposits of funds in the form of cash in the Collateral and Mutualized Fund Accounts. Such deposits do not earn any income.

The stated purpose of cash pledges to Collateral Accounts must be “trade collateral” or “coverage of trading risk”. The stated purpose of cash deposits in Mutualized Fund Accounts must be “mutualized fund”.

The flow of pledges and deposits in Collateral and Mutualized Fund Accounts comprises the following steps:

- MC, PLC or ADM requests pledge or deposit via GA system screens or, if MSG is associated, via message LDL1002;
- Clearinghouse checks request’s compliance with all conditions established for pledge or deposit;
- Clearinghouse notifies MC, PLC or ADM of request acceptance or denial via GA system screens or, if requester has associated MSG, via LDL1002R1;
- If request is accepted, MC, PLC or ADM confirms request via GA system screens or, when MSG is associated, via LDL1003;
- Clearinghouse sends request for funds transfer via STR to MC’s or PLC’s BL (LDL0013);
- MC or PLC, via their BL, transfer funds to Clearinghouse Settlement Account with STR (LDL0014);
- Once STR has effected transfer, Clearinghouse systems are updated and MC, PLC or ADM is notified via GA system screens or, if MSG is associated, via LDL1003R1.
- Clearinghouse transfers funds to Collateral Account with banking institution (LDL0012).

iii. Denial of Asset Pledges or Deposits

The Clearinghouse may deny a request to pledge or deposit cash or securities in the following situations:

- Participant not authorized to request deposit/pledge to the account named or for the purpose stated;
- Request to deposit/pledge ineligible security;
- Lack, insufficiency or inconsistency of information provided by participant;
- Other, at its discretion.

3.3.2 Asset Withdrawals

i. Securities

Participants may request withdrawals of securities from Collateral, Mutualized Fund and Deposit Accounts.

The stated purpose for a withdrawal must be the same as the stated purpose for which the securities in question were deposited or pledged. Withdrawals flagged “auction” or “rediscount settlement” as stated purpose are not allowed. As noted in 3.3.1 (i) above, participants may request cancellation of deposits or pledges made with these stated purposes via the GA system screens or, if an MSG is associated, via message BMA3005, and if the request is accepted by the Clearinghouse, must send message SEL1400 to Selic or order cancellation via a Selic terminal. The stated purpose of withdrawals from the Deposit Account relating to rediscount transactions must be “contracting rediscount” when the corresponding contract is entered into with the Clearinghouse’s assistance, as provided for in 6.8 below.

Withdrawals of securities flagged “SET” as stated purpose may be denied if the securities concerned are being used to cover offers relating to securities-driven repos, loans and interchanges with a gross settlement option.

The flow of withdrawals from Collateral and Mutualized Fund Accounts comprises the following steps:

- MC, PLC or ADM requests withdrawal via GA system screens or, if MSG is associated, via message LDL1006;
- Clearinghouse checks request’s compliance with all conditions established, and submits it to Risk Management System for analysis;
- Clearinghouse notifies MC, PLC or ADM of withdrawal request acceptance or denial via GA system screens or, if requester has associated MSG, via LDL1006R1;
- If participant requesting securities movement is different from CST responsible for movement, Clearinghouse notifies CST of withdrawal request via GA system screens or, if CST has associated MSG, via BMA3001;
- Also in these cases, CST accepts or denies securities movement request via GA system screens or, when MSG is associated, via BMA3002;
- Clearinghouse informs securities movement requester of CST’s response via GA system screens or LDL1003R1;
 - In all cases, Clearinghouse and CST send securities transfer order to Selic (SEL1023 or Selic terminal);
 - Once transfer to Selic has been effected, Clearinghouse systems are updated and MC, PLC or ADM is notified via GA system screens or, if MSG is associated, via LDL1006R1.

The flow of withdrawals from the Deposit Account comprises the following steps:

- PNA, PLC, ADM or CST (for withdrawals in CF’s name with “deposit” as stated purpose) requests withdrawal via GA system screens or, if MSG is associated, via message LDL1006;
- Clearinghouse checks request’s compliance with all conditions established for withdrawal, and submits it to Risk Management System for analysis;
- Clearinghouse notifies PNA, PLC, ADM or CST of withdrawal request acceptance or denial via GA system screens or, if requester has associated MSG, via LDL1006R1;
- If participant requesting securities movement is different from CST responsible for movement, Clearinghouse notifies CST of withdrawal request via GA system screens or, if CST has associated MSG, via BMA3001;
- Also in these cases, CST accepts or denies securities movement request via GA system screens or, when MSG is associated, via BMA3002;
- Clearinghouse informs securities movement requester of CST’s response via GA system screens or LDL1003R1;
- In all cases, Clearinghouse and CST send securities transfer order to Selic (SEL1023 or Selic terminal);
- Once transfer to Selic has been effected, Clearinghouse systems are updated and PNA, PLC, ADM or CST is notified via GA system screens or, if MSG is associated, via LDL1006R1.

Collateral withdrawal requests addressed to Collateral and Mutualized Fund Accounts will be processed only when the account to which the securities are to be transferred (drawee) is the requester’s own Custody Account.

Requests by PNAs to withdraw securities from the Clearinghouse's Deposit Account flagged "contracting rediscount" as stated purpose will be processed only when the drawee is the requester's own Custody Account. Requests by PNAs to withdraw securities from the Clearinghouse's Deposit Account with "coverage of trades" or "SET" as stated purpose will be processed when the drawee is the requester's own Custody Account, CF 1's Custody Account (for PNAs that are not banking institutions), CF 2's Custody Account, or individualized accounts not held in the name of PNAs or PLCs.

Withdrawals with CF accounts as drawee as established in the previous paragraph may be requested only by the PNA that made the deposit.

Withdrawals flagged "contracting rediscount" as stated purpose indicate the participant's intention of discharging its net payment obligation in the Settlement Window, using the funds received from rediscounting of the securities that constitute its net right in securities in the same Settlement Window. This intention may be cancelled before the withdrawal is confirmed via a dual command from the requester and the Clearinghouse. In this case the participant must request cancellation via the GA system screens or, if an MSG is associated, via message BMA3005, and if the request is accepted by the Clearinghouse, must send message SEL1400 or order cancellation via a Selic terminal.

Withdrawals flagged "contracting rediscount" as stated purpose are effected during the Clearinghouse's Settlement Window, as detailed in Section 6 below.

ii. Cash

Participants may request withdrawals of funds in cash from Collateral and Mutualized Fund Accounts. The stated purpose for a withdrawal must be the same as the stated purpose for which the funds in question were deposited or pledged.

The flow of withdrawals from Collateral and Mutualized Fund Accounts comprises the following steps:

- MC, PLC or ADM requests withdrawal via GA system screens or, if MSG is associated with requester, via message LDL1006;
- Clearinghouse checks request's compliance with all conditions established for withdrawal, and submits it to Risk Management System for analysis;
- Clearinghouse notifies MC, PLC or ADM of withdrawal request acceptance or denial via GA system screens or, if MSG is associated with requester, via LDL1006R1;
- If withdrawal request is accepted, Clearinghouse requests transfer of funds from its Collateral Account with banking institution to its Settlement Account with STR (LDL0010);
- Banking institution transfers funds to Clearinghouse's Settlement Account (LDL0011);
- Clearinghouse transfers funds via STR to MC's or PLC's BL (LDL0015);
- Once transfer has been effected by STR, Clearinghouse systems are updated and MC, PLC or ADM is notified via GA system screens or, if MSG is associated, via LDL1006R1.

iii. Denial of Asset Withdrawals

The Clearinghouse may deny a request to withdraw securities or cash in the following situations:

- Participant not authorized to request withdrawals from account named or for purpose stated;
- Request to withdraw ineligible security;
- Quantity deposited/pledged insufficient to meet withdrawal request;
- Non-compliance with criteria used by Clearinghouse's Risk Management System
- Lack, insufficiency or inconsistency of information provided by participant.

3.3.3 Securities Transfers

Participants may request the transfer of securities between certain specific stated purposes within the same account, between the Clearinghouse's Deposit and Collateral Accounts, or between the Collateral Accounts of BM&FBOVESPA clearinghouses.

Such requests will be accepted only if all the necessary conditions are met, including approval by the Clearinghouse's Risk Management System.

The following items list the transfers participants are allowed to request.

i. Between Stated Purposes

Transfers are allowed between the following stated purposes within the Deposit Account:

- "deposit" and "coverage of trades";
- "deposit" and "SET";
- "deposit" and "regularization of delivery";
- "deposit" and "regularization of delivery service";
- "coverage of trades" and "SET";
- "coverage of trades" and "regularization of delivery";
- "SET" and "regularization of delivery";
- "SET" and "regularization of delivery service".

Transfers are allowed between "trade collateral" and "coverage of trading risk" within a Collateral Account.

The flow of transfers between stated purposes within the Deposit Account or a Collateral Account comprises the following steps:

- PNA, PLC or ADM requests transfer via GA system screens or, if MSG is associated, via message LDL1016;
- Clearinghouse checks request's compliance with all conditions established, and submits it to Risk Management System for analysis;
- If request is accepted, Clearinghouse effects transfer in its internal controls and updates all systems involved;
- Clearinghouse notifies PNA, PLC or ADM of transfer request fulfillment or denial via GA system screens or, if MSG is associated with requester, via LDL1016R1.

ii. Between Clearinghouse Accounts

Transfers of securities between the Clearinghouse's Deposit and Collateral Accounts are allowed as follows, depending on the stated purposes for which they were pledged or deposited:

- Securities deposited in the Deposit Account with the stated purpose “deposit”, “coverage of trades”, “SET”, “regularization of delivery” or “regularization of delivery service”;
- Securities pledged to a Collateral Account with the stated purpose “trade collateral” or “coverage of trading risk”.

The flow of transfers between the Clearinghouse’s Deposit and Collateral Accounts comprises the following steps:

- PNA (if also MC and drawer is Deposit Account), MC (if also PNA and drawer is Collateral Account), PLC or ADM requests transfer via GA system screens or, if MSG is associated, via message LDL1016;
- Clearinghouse checks request’s compliance with all conditions established for transfer, and submits it to Risk Management System for analysis;
- If request is accepted, Clearinghouse effects transfer in Selic (SEL1023) and updates all systems involved;
- Clearinghouse notifies PNA, MC, PLC or ADM of transfer request fulfillment or denial via GA system screens or, if MSG is associated with requester, via LDL1006R1.

iii. Between Collateral Accounts of BM&FBOVESPA Clearinghouses

Transfers of securities are allowed between the Securities Clearinghouse’s Collateral Accounts and the Derivatives Clearinghouse’s or Foreign-Exchange Clearinghouse’s Collateral Accounts.

Securities thus transferred must have the following stated purposes: “trade collateral” or “coverage of trading risk” when pledged to the Securities Clearinghouse’s Collateral Accounts; “trade collateral” when pledged to the Derivatives Clearinghouse’s Collateral Accounts; and “reserves” when pledged to the Foreign-Exchange Clearinghouse’s Collateral Accounts.

The flow of transfers between Collateral Accounts of BM&FBOVESPA clearinghouses comprises the following steps:

- MC, PLC or ADM submits transfer request to clearinghouse to which securities are pledged (“clearinghouse of origin”) via system screens or message LDL1016;
- Clearinghouse of origin analyzes request to check compliance with all conditions established for transfer, and submits it to risk assessment when Securities Clearinghouse or Derivatives Clearinghouse is involved;
- Clearinghouse of origin checks with clearinghouse of destination whether transfer can be effected;
- Clearinghouse of origin notifies MC, PLC or ADM of transfer request acceptance or denial via system screens or LDL1006R1;
- If request is accepted, both clearinghouses execute securities transfer order to Selic (SEL1023);
- Once transfer to Selic has been effected, clearinghouse systems are updated and clearinghouse of destination notifies MC, PLC or ADM via system screens or LDL1027.

iv. Denial of Securities Transfer

Clearinghouses may deny transfer requests in situations such as:

- Participants not authorized to request transfers under conditions stated;
- Requests to transfer ineligible securities;
- Quantity deposited/pledged insufficient to meet transfer request;
- Non-compliance with risk assessment criteria;
- Lack, insufficiency or inconsistency of information provided by participants;
- Denial of destination by clearinghouse, for transfers between clearinghouses.

3.4 Eligible Securities

The Clearinghouse specifies the securities eligible to be pledged or deposited for each stated purpose. The list of eligible securities is made available to participants online, via queries to the Securities Registration System (CTF), and in files.

The list of securities eligible for pledging to Collateral Accounts can be obtained via message LDL1013 as well as queries and files.

The Clearinghouse may alter the list of eligible securities at any time without prejudice to the securities already pledged.

3.5 Treatment of Events

The event treatment process entails the transfer of interest payments, loan repayments and redemptions of securities posted to Collateral Accounts and the Deposit Account.

Funds in cash are transferred to BL from MC's, PLC's or PNA's CST via message LDL0009 at the times established in the timetable reproduced in Section 9 below.

If a MC or PLC has been declared a trade debtor, as provided for in Section 7 below, the funds arising from events relating to securities posted to the Clearinghouse's Collateral Accounts are not transferred to the participant in question until it returns to normal trading status.

If a MC or PLC has been declared in default, in accordance with 7.5 below, the funds arising from events relating to securities posted to the Clearinghouse's Collateral Accounts are transferred wholly or partially to the participant in question only if a right to receive funds remains after all its obligations to the Clearinghouse are discharged.

MC and PLC may at their sole discretion request the Clearinghouse to use event funds to meet their collateral recomposition requirements, in the latter case directly or via its ADM.

In the cases mentioned in the previous paragraph, events are considered transferred and concomitantly posted by the participant as cash collateral. The balance of the participant's collateral is updated, consequently affecting collateral calls.

Estimated values for scheduled events concerning securities can be queried by participants via CTF system screens or, if they have associated MSG, via message LDL1011, provided they do so with advance notice as defined in BM&FBOVESPA's Circular Letter.

On event payment dates, CST, MC, PLC and ADM can view an itemized list of event transfer values for the date in question via the Financial Accounting Entry Control System (CLF) or, if they have associated MSGs, via message BMA0101.

4. REGISTRATION & ACCEPTANCE OF TRADES

4.1 Trading & Registration of Trades

All trades cleared and settled via the Clearinghouse are performed or registered in Sisbex.

Accredited participants can use Sisbex-Trading (Sisbex-Negociação) to enter orders and buy or sell assets. Orders entered and trades transacted in the system are immediately transmitted to all connected workstations, enabling participants to interact multilaterally in real time. Sisbex also automatically matches buy and sell orders whenever possible.

Participants can use Sisbex-Registration (Sisbex-Registro) to register transactions performed in other trading environments for the purpose of settlement in a single multilateral balance together with transactions performed in Sisbex-Trading.

Sisbex offers participants functionality that recognizes intermediation transactions performed in both Sisbex-Trading and Sisbex-Registration. This includes intermediation for several participants in one and the same transaction.

Given the characteristics of the environments involved in the registration or settlement of transactions, no intermediation is allowed in transactions under the modality Migration between Selic and Clearinghouse, provided for in 4.3.4 below.

Sisbex also offers transactions with the option of gross settlement with the Clearinghouse's assistance.

For more details of Sisbex's functionality and screens, see the Sisbex Procedure Manual and Sisbex User Manual.

4.2 Acceptance of Trades

The Clearinghouse accepts for settlements only transactions that comply with the requirements and criteria established in its rules and regulations, such as those relating to:

- Participants' limits;
- Type or modality of transaction;
- Asset traded;
- Price;and
- Maturities and times.

In accordance with the provisions of the Clearinghouse's Risk Management System Manual, accepted transactions affect the limits of MC, PLC, PLM and PNA. It is important to note that:

- PNAs' limits are set by MC via the screens of the Risk Management system or, if they have associated MSG, via message BMA2002;
- PLMs' limits are set as a function of the limits set for the PLCs associated with them.

MC, PLC, PLM and PNA can view their limits on the screens of the Risk Management System or, if they have associated MSG, via message BMA2001.

Transactions with federal government securities performed in Sisbex-Trading or registered in Sisbex-Registration are eligible for acceptance by the Clearinghouse.

The list of securities eligible for trading in Sisbex-Trading and Sisbex-Registration is published every day by the Clearinghouse on the internet (www.bmf.com.br) and on the screens of the CTF system, as well as by Sisbex.

PNAs must specify the security traded and trading modality when entering an offer or order into Sisbex.

Transactions performed with securities subject to a trading suspension will not be registered in Sisbex or accepted by the Clearinghouse. Sisbex regularly informs the market of the securities subject to trading suspensions.

Only PNAs duly accredited by the Clearinghouse to perform transactions in Sisbex-Trading or Sisbex-Registration and connected to Sisbex may place orders or offers in the trading posts for which they qualify to perform and register trades.

Trades that comply with the price fluctuation limits set by the Clearinghouse are accepted for settlement. Each security has a specific price fluctuation limit published by Sisbex.

4.2.1 Covered Trades

Trades performed or registered in Sisbex may be covered for the purposes of risk assessment during the trade acceptance and securities delivery settlement processes. All trades with the option of gross settlement must be covered.

PLCs (directly or via their ADMs), PNAs, and CFs via PNAs cover SET transactions with a gross settlement option by:

- Posting the securities they intend to trade in Sisbex to the Clearinghouse's Deposit Account with Selic, with "SET" as the stated purpose;
- Using securities pledged to Collateral Accounts held by BM&FBOVESPA's Clearinghouses.

SET transactions with the option of settlement in the Settlement Window may also be covered by:

- Posting the securities to be traded or already traded in Sisbex to the Clearinghouse's Deposit Account with Selic, with "SET" as the stated purpose;
- Using securities pledged to Collateral Accounts held by BM&FBOVESPA's Clearinghouses;
- Using the participant's rights in the Settlement Window.

PLCs (directly or via their ADMs), PNAs, and CFs via PNAs cover all other transactions with a gross settlement option except SET transactions by:

- Posting the securities they intend to trade in Sisbex to the Clearinghouse's Deposit Account with Selic, with "coverage of trades" as the stated purpose;
- Using securities pledged to the Clearinghouse's Collateral Accounts with "trade collateral" as the stated purpose.

All other transactions may be covered by:

- Posting the securities to be traded or already traded in Sisbex to the Clearinghouse's Deposit Account with Selic, with "coverage of trades" as the stated purpose;
- Using securities pledged to the Clearinghouse's Collateral Accounts with "trade collateral" as the stated purpose;
- Using the participant's rights in the Settlement Window.

Procedures for posting securities to Collateral Accounts and the Deposit Account are detailed in Section 3 of this Manual.

The steps required to post securities to Collateral Accounts held by BM&FBOVESPA's Clearinghouses for SET transactions are set out in 4.3.5 below. Coverage of a trade waives the obligation for a PLC or PNA's MC to post collateral to cover the risks arising from securities sales, loans or interchanges, as provided for in the Clearinghouse Risk Management System Manual. When securities posted to Collateral or Deposit Accounts are used to cover trades, final settlement of securities delivery obligations for the PLC or PNA's MC occurs only when the securities are transferred by the Clearinghouse from the account of origin to its Settlement Account, as detailed in Section 6 below.

PLC (directly or via its ADM) or PNA may withdraw securities posted with "coverage of trades" or "SET" as stated purpose, even after executing the respective transaction, provided they violate no risk criteria by doing so.

PLC (directly or via its ADM) or PNA must specify, within the required time frame, the Deposit or Collateral Accounts held by BM&FBOVESPA clearinghouses as the accounts of origin for securities to be sold, loaned or interchanged for the purpose of covering trades, in accordance with the procedures detailed in 6.3 below. Should they fail to discharge this obligation, the Clearinghouse does so, observing the following order of preference among all sales, loans and interchanges of the respective securities to be settled on the date in question:

- Transactions for which the participant's own Custody Account is specified;
- All other transactions in descending order of quantities of securities sold.

In the case of transactions for settlement in the Settlement Window, securities delivery obligations relating to covered trades are not included in Settlement Window netting: instead, the settlement process occurs via transfer of the securities from the account of origin to the respective Settlement Account immediately after the end of the trading period on the date set for settlement. Cash rights are settled in the Settlement Window and are therefore offset by cash obligations on the same date. Buyers of securities, regardless of whether purchase occurs via covered trades, receive securities and settle payment obligations in the Settlement Window on a net basis.

PLC (directly or via its ADM) or PNA may request withdrawal of securities posted for "coverage of trades" or "SET" until the very end of final settlement, such requests being accepted and executed provided they comply with risk assessment criteria. If securities so posted are withdrawn, the delivery obligation is reintegrated into Settlement Window netting.

SET transactions for gross settlement are subject to a specific settlement procedure, detailed in 4.3.5 below.

4.2.2 Trade Reallocation & Appointment of Responsible PLC

Transactions accepted for clearing and settlement via the Clearinghouse can be totally or partially reallocated. This includes forward auction offers, which must be pre-registered.

Reallocation is not permitted for transactions involving migration between Selic and the Clearinghouse, or transactions for gross settlement.

Each PLM must name the associated PLCs who will be responsible for settlement of the trades it executes or that are executed based on its orders. Different PLCs may be named as responsible for settlement of separate portions of a given transaction.

Trade reallocation and appointment of responsible PLC may be effected in batch mode, whereby several transactions are simultaneously reallocated and/or attributed to a responsible PLC.

Trade reallocation requests and appointment of responsible PLC must be effected on the day the transaction is accepted or, in the case of forward auction offers, on the day of pre-registration, and the corresponding process of reallocation or appointment of a responsible PLC must be completed by the time limit established for this purpose by the Clearinghouse.

PNAs may reallocate trades to PLCs and other PNAs.

Reallocation of any trade is subject to acceptance by the participant to which it will be reallocated and to risk assessment by the Clearinghouse, given that reallocation entails changing the portfolios of the participants involved.

Appointment of PLC responsible for settlement of trades accepted on the basis of orders from or executed by PLM is subject to risk assessment by the Clearinghouse.

Any alteration to a responsible PLC is subject to presentation of a justified request by the PLM concerned and may be denied by the Clearinghouse.

The flow of trade reallocation and responsible PLC appointment comprises the following steps:

- PNA or PLM requests trade reallocation or appointment of responsible PLC via screens of Government Bond Settlement System (LTP) or, when MSG is associated, via message BMA0024;
- Clearinghouse informs PNA or PLC for which reallocation is requested via LTP system screens or, when MSG is associated, via BMA0025;
- If participant denies reallocation via LTP system screens or, when MSG is associated, via BMA0026, or fails to either accept or deny reallocation by established time limit, Clearinghouse informs requester via LTP system screens or BMA0024R1;
- If participant accepts reallocation via LTP system screens or, when MSG is associated, via BMA0026, Clearinghouse checks request's compliance with risk assessment criteria and either accepts or denies reallocation, following same risk assessment procedure for appointment of responsible PLC;

- If Clearinghouse accepts reallocation or appointment, its systems are updated and participants are notified via LTP systems screens and BMA0024R1, or via BMA0026R1 if participants have executed previous steps via messaging;
- If Clearinghouse denies reallocation or appointment, it merely notifies participants involved via LTP systems screens and BMA0024R1, or via BMA0026R1 if participants have executed previous steps via messaging.

In transactions executed by PNA by order of PLM, until the Clearinghouse accepts the appointment of a PLC responsible for settlement this responsibility remains with the MC associated with the PNA that executes the corresponding PLM's order.

In transactions performed directly by PLMs, should the PLM fail to appoint the PLC responsible for settlement in the time frame established by the Clearinghouse or should the Clearinghouse deny its request to do so, the Clearinghouse takes the measures it deems necessary to discharge its obligations to the other participants.

4.2.3 Information for Participants

The Clearinghouse immediately informs MC, PNA, PLC, PLM and ADM of all data for the transactions accepted for settlement in which they are involved and for pre-registered transactions. Information regarding the acceptance and pre-registration of transactions is sent by file, via LTP system screens and, for those with associated MSGs, via message BMA0002.

As well as their own information, MC and PLM can access information regarding associated PNAs and PLCs. ADM can access information on associated PLCs.

Information on the cancellation of an accepted or pre-registered transaction in the situations provided for by the Clearinghouse Rulebook and this Procedure Manual is immediately sent to all parties involved, including the CST. Information on the cancellation is sent by file, via LTP system screens and, for those with associated MSG, via message BMA0003.

If a transaction executed in accordance with an order awaiting electronic confirmation is rejected, information is sent to the participant responsible for the rejection and, when appropriate, to its MC and CST, and to the PNA that executed the transaction and the latter's MC, as per the preceding paragraphs.

If a transaction is reallocated or a PLC is named as responsible for settlement, information is sent to all the parties involved in accordance with the procedure detailed in the previous paragraph, Thus if an PLM performs a transaction it is sent similar information to that sent to the PNA according to that procedure.

If a PLC is not appointed responsible for a transaction executed by an PLM within the required time frame, information on its cancellation is sent to the PLM, in which case it is important to note that nothing changes for the participant that acts as a counterparty in such a transaction since the Clearinghouse honors the obligations assumed toward the counterparty when the transaction was performed.

Information on transactions performed in Sisbex-Trading and registered in Sisbex-Registration but not accepted by the Clearinghouse to be settled there is provided to the parties involved via Sisbex screens immediately after denial.

4.3 Transaction Types

4.3.1 Purchase and Sale Transactions

Purchases and sales of securities for settlement on T+0 (spot) or T+n (forward), which in the latter case, settlement must take place within the maximum time span established in Circular Letters by BM&FBOVESPA. In all cases, settlement of purchases and sales transactions must take place by the last business day prior to the security's expiration date.

Should the Clearinghouse reduce the maximum time span for settlement, outstanding trades are not affected even if they are to be settled in a longer time span. Orders entered but not yet matched are cancelled by Sisbex if they specify settlement in a time span exceeding the new one established by the Clearinghouse, and the participants responsible are notified in accordance with the procedures set forth in the Sisbex Procedure Manual.

Changes are made to maximum time span by the Clearinghouse preferably after trading hours.

Participants establish the settlement dates for purchases and sales transactions in Sisbex.

i. Spot Trades (Settlement on T+0)

Purchases and sales transactions for T+0 settlement are registered on T+0 and the rights and obligations arising from them are incorporated into the MC's or PLC's net multilateral balance on the same day, with settlement taking place in the same-day Settlement Window, except for covered trades as far as the participant's delivery obligation is concerned, as specified in 4.2.1 above.

Alternatively, the rights and obligations in securities and cash resulting from purchases and sales transactions for T+0 settlement can be settled immediately after trade acceptance. Trades with the option of gross settlement can be executed throughout the period for trading with T+n settlement. Trades with the option of gross settlement must be covered before offer placement or trade registration, by posting the securities involved to the Clearinghouse Deposit Account with "coverage of trades" as stated purpose.

The flow of execution and settlement for purchases and sales transactions with the option of gross settlement comprises the following steps:

- Securities are posted to Clearinghouse Deposit Account for "coverage of trades" by PLC, directly or via ADM, or by PNA for own account or for CF that has an individualized customer account in Selic but is not PNA or PLC;
- PNA or PLC, the latter directly or via PLM, executes or registers trade with Sisbex;
- Clearinghouse analyzes possibility of accepting trade, including compliance with risk management criteria;
- If trade is accepted, Clearinghouse informs PNA, or PLC and its PLM when responsible for executing or registering trade, that settlement has begun via Sisbex or LTP screens or, if MSG is associated, via message BMA0002. If denied, Clearinghouse informs same parties via Sisbex screens;
- In accordance with time limit established by Circular Letter, PNA confirms Custody Account to be used for settlement via LTP system screens or, if MSG is associated, via BMA0029;
- Clearinghouse informs buyer's BL of monetary amount to be settled via LTR0001 or LTR0007;

- Buyer's BL transfers funds to Clearinghouse Settlement Account in STR via LTR0004 within time limit established by BM&FBOVESPA's Circular Letter or, having received LTR0007, transfers funds to corresponding current accounts and confirms transfers via LTR0008;
- Having verified that funds have been credited to its Settlement Account in STR, Clearinghouse transfers funds via LTR0005 to seller's BL and transfers securities to buyer's deposit account, updating status of transaction in Sisbex and LTP, and, if PNA, PLC or ADM has associated MSG, sends another BMA0002;
- If buyer's BL does not transfer funds to Clearinghouse's Settlement Account in STR or fails to confirm transfer via LTR0008 within time limit established by BM&FBOVESPA when this is required, trade is cancelled and Clearinghouse sends BMA0003 to participants and LTR0012 to buyer's BL.

If the Clearinghouse detects divergences in the order for funds transfer via the STR, it notifies the participant concerned. The Clearinghouse makes any corrections it can. Otherwise it returns the funds transferred, reestablishing the requirement for the BL to transfer the funds owed within the time span established.

Similar treatment is applied when message LTR0008 is received with divergent information.

ii. Forward Trades (Settlement on T+n)

Purchases and sales transactions for settlement on T+n are registered on T+0, but the rights and obligations in securities and funds arising therefrom are incorporated into the MC's or PLC's multilateral balance computed for T+n, with settlement taking place in the Settlement Window for the day in question, except in the case of covered trades.

4.3.2 Repos

Repos entail the purchase or sale of securities for settlement on a specific date combined with a commitment to resell or repurchase the same securities, constituting a transaction for settlement at a future date.

The Clearinghouse accepts for settlement repos with settlement of the purchase or sale on T+m and settlement of the resale or repurchase on T+n when n is greater than m . Settlement of the resale or repurchase leg may not occur later than the date on which the securities mature, or the next business day for a security that matures on a non-business day. The Clearinghouse also accepts for clearing and settlement any migration transactions that correspond to same-day repos, as detailed in 4.3.4 below.

Time limits for settlement accepted by the Clearinghouse for purchase and sale, and for resale and repurchase, are published by BM&FBOVESPA's Circular Letters.

Freedom of movement is assured for the underlying securities in repos accepted by the Clearinghouse. Thus underlying securities can be sold outright or posted as collateral, for example. The buyer or lender must have available for delivery a security of the same type and maturity as the security underlying the resale leg if netting for the date in question shows it to be a net debtor.

The purchase or sale leg and resale or repurchase leg are accepted and registered concurrently upon repo execution, except in the case of migration transactions, as detailed in 4.3.4 below.

Amounts paid by the issuer as interest or amortization on the securities underlying repos accepted from the business day following the date on which the purchase or sale leg is accepted until the date on which the resale or repurchase leg is settled, updated by the Selic Rate when appropriate, and amounts paid for redemption of such securities are included for netting purposes in the participants' multilateral balances on the date of settlement of the resale or repurchase leg. These balances are computed taking into consideration the funds owed by the participant committed to resale and the corresponding credit right of the participant committed to repurchase.

The updating mentioned in the previous paragraph is calculated from the date of payment by the issuer to the date on which the resale and repurchase leg is settled.

T+m/T+n repos are registered on T+0 and the rights and obligations in securities and funds arising therefrom are incorporated into the net multilateral balance for the respective maturities (T+m for the purchase or sale leg, T+n for the resale or repurchase leg), with settlement during Clearinghouse Settlement Window hours on the dates concerned, except for covered trades and transactions requiring gross settlement of the purchase and sale leg.

Alternatively, the rights and obligations in securities and funds arising from the purchase or sale leg may be settled immediately after acceptance of the transaction. In this case repos with the option of gross settlement must be covered before being offered or registered, by posting the underlying securities to the Clearinghouse Deposit Account with the stated purpose "SET" for securities-driven repos, or "coverage of trades" for all other types. The types of repo available are described in detail below, shortly after the following paragraphs describing the execution and settlement flow for repos with gross settlement.

The flow of specific or generic collateral repo execution and settlement, with gross settlement of the purchase or sale portions, comprises the following steps:

- Securities are posted to Clearinghouse Deposit Account for "coverage of trades" by PLC, directly or via ADM, or by PNA for own account or for CF that has an individualized customer account in Selic but is not PNA or PLC;
- PNA or PLC, the latter directly or via PLM, executes or registers trade with Sisbex;
- Clearinghouse analyzes possibility of accepting trade, including compliance with risk management criteria;
- If trade is accepted, Clearinghouse informs PNA, or PLC and its PLM when responsible for executing or registering trade, that settlement has begun via Sisbex or LTP screens or, if MSG is associated, via message BMA0002. If denied, Clearinghouse informs same parties via Sisbex screens;
- In accordance with time limit established by Circular Letter, PNA confirms Custody Account to be used for settlement and, for generic collateral repos, specifies underlying securities via LTP system screens or, if MSG is associated, via BMA0029;
- If securities specified as underlying for generic collateral repo have been posted to Deposit Account for "coverage of trades", Clearinghouse informs buyer's BL of monetary amount to be settled via LTR0001 or LTR0007; otherwise transaction is cancelled and Clearinghouse sends participants message BMA0003;

- Buyer's BL transfers funds to Clearinghouse Settlement Account in STR via LTR0004 within time limit established by BM&FBOVESPA's Circular Letter or, having received LTR0007, transfers funds to corresponding current accounts and confirms transfers via LTR0008;
- Having verified that funds have been credited to its Settlement Account in STR, Clearinghouse transfers funds via LTR0005 to seller's BL and transfers securities to buyer's deposit account, updating status of transaction in Sisbex and LTP, and, if PNA, PLC or ADM has associated MSG, sends another BMA0002;
- If buyer's BL does not transfer funds to Clearinghouse Settlement Account in STR or fails to confirm transfer via LTR0008 within time limit established by BM&FBOVESPA when this is required, trade is cancelled and Clearinghouse sends BMA0003 to participants and LTR0012 to buyer's BL.

If the Clearinghouse detects divergences in the order for funds transfer via the STR, it notifies the participant concerned. The Clearinghouse makes any corrections it can. Otherwise it returns the funds transferred, reestablishing the requirement for the BL to transfer the funds owed within the time span established.

Similar treatment is applied when message LTR0008 is received with divergent information.

The flow of securities-driven repo execution and settlement with gross settlement is described in 4.3.5(i) below.

There are three types of repo: specific collateral repos, securities-driven repos, and generic collateral repos. In specific collateral repos the underlying securities are named at the outset, the repo rate is fixed, and the transaction is funds-based. In securities-driven repos the underlying securities are also named at the outset, the transaction is quantity-based, and the repo rate is variable, corresponding to a percentage of the Selic Rate. In generic collateral repos the underlying securities may be named by the borrower via the Clearinghouse systems at any time before settlement, the transaction is funds-based, and the repo rate is fixed.

Generic collateral comprises a sub-list of securities contained in the list of all securities accepted as repo underlying. The generic collateral list is updated weekly by the Clearinghouse.

As central counterparty and guarantor of repo settlement, the Clearinghouse establishes a list of accepted repo collateral securities and prices. The following prices are used to compute securities quantities for specific collateral repos:

- Purchase or sale with registration and settlement on T+0 – Opening reference price on the trade date;
- Purchase or sale with registration on T+0 and settlement on T+m – T+0 opening reference price estimated for T+m on trade date and T+m opening reference price at settlement.

In specific collateral repos, quantity is the quotient of monetary value transacted divided by the agreed reference price and rounded to the nearest whole number. This result is multiplied by the reference price to find the monetary amount for settlement on the date of

calculation. Thus the settlement amount differs from the monetary value transacted by the product of the reference price and the fraction left out in rounding.

It is important to note that in the case of a specific collateral repo where the purchase or sale is registered on T+0 and settlement takes place on T+m, all queries to the LTP system regarding underlying quantity return results based on the opening reference price on the query date. Thus both quantity and monetary amount may change daily in the case of a specific collateral repo where the purchase or sale is registered on T+0 and settlement takes place on T+m, and for settlement purposes the quantity and amount that prevail are those computed on the day on which the purchase or sale leg is settled.

In securities-driven repos the quantity of securities is fixed and defined by mutual agreement at the outset. The settlement amount corresponds to the product of this quantity multiplied by the opening reference price on the settlement date. Thus in the case of a securities-driven repo where the purchase or sale is registered in T+0 and settlement takes place on T+m, all queries to the LTP system regarding the settlement amount return results based on the opening reference price on the query date. For settlement purposes the amount that prevails is that computed on the day on which the purchase or sale leg is settled.

The Clearinghouse informs participants of quantities and monetary values for specific collateral and securities-driven repos with settlement of the purchase and sale leg on T+m (where T = registration date) each day via the LTP system and message BMA0002, based on the opening reference price for the day in question.

Generic collateral repos registered on T+0 and with settlement of the purchase and sale leg on T+m require collateral to be specified only on T+m, in accordance with the procedures detailed in Section 6 below. It is important to note that the monetary amount considered for settlement purposes does not change until the settlement date, regardless of the collateralization process and of the collateral specified in the repo. The list of generic and other securities and of prices accepted for this purpose is published via the LTP system, by file, and via message BMA0001.

4.3.3 Auction Forwards

Auction forwards are outright purchases or sales of securities auctioned by public offering for settlement on the same date as the public offering.

Acceptance of these transactions is subject to compliance with the conditions established in the applicable rules and regulations. Non-compliance entails automatic cancellation of any auction forward pre-registered with the Clearinghouse.

BM&FBOVESPA publishes a list of securities eligible for trading as auction forwards in Circular Letters and on CTF system screens.

The Clearinghouse accepts for settlement any auction forward pre-registered on any business day prior to the auction settlement date.

The rights and obligations in securities and funds arising from auction forward transactions are incorporated into the net multilateral balance on T+n and settled during the Clearinghouse Settlement Window.

4.3.4 Migration Between Selic & Clearinghouse

i. Selic to Clearinghouse

Transactions involving migration from Selic to the Clearinghouse are specific collateral repos in which the purchase and sale leg is registered and settled in Selic and the repurchase and resale leg is registered and settled in the Clearinghouse.

The Clearinghouse accepts for settlement Selic-to-Clearinghouse migration transactions in which the purchase and sale leg is settled on T+0 and the repurchase and resale leg is settled on T+n when n is greater than or equal to zero. Settlement of the repurchase or resale leg may not occur later than the date on which the securities mature, or the next business day for a security that matures on a non-business day. Time limits for settlement accepted by the Clearinghouse for resale and repurchase are published by BM&FBOVESPA in Circular Letters.

Should the Clearinghouse reduce the maximum time span for settlement, outstanding trades remain unaffected even if they are to be settled in a longer time span, as do pre-registered trades.

Changes are made to maximum time span by the Clearinghouse preferably after trading hours.

PNA or PLC, the latter directly or via its PLM, effect pre-registration of repurchase and resale legs with the Clearinghouse, which then allocates the required trading limits for PLC, or PNA and its respective MC and informs Selic of the possibility of accepting the corresponding purchase and sale legs. Participants then register the purchase and sale legs with Selic.

Thus once repurchase and resale legs are effectively registered, the possibility of denial by the Clearinghouse is eliminated.

The flow of Selic-to-Clearinghouse migration transaction registration comprises the following steps:

- PNA or PLC, the latter directly or via its PLM, requests pre-registration of Selic-to-Clearinghouse migration transaction by Sisbex-Registration;
- Clearinghouse checks request's compliance with all conditions established for transaction, and submits it to Risk Management System for analysis;
- If transaction is eligible for acceptance, Clearinghouse informs PNA, PLC or PLM if it has effected pre-registration in name of PLC that pre-registration process can continue, via LTP system or, if MSG is associated, via message BMA0002;
- Within time frame established in Circular Letter, PNA or PLC confirms account to be used to settle transaction via LTP system screens or, if MSG is associated, via BMA0029, also informing number of purchase and sale transaction to be registered by Selic if it is seller of securities involved;
- Clearinghouse informs Selic of migration transaction via SEL1032;
- Selic informs Clearinghouse of pre-registration acceptance or denial via SEL1032R1;
- Clearinghouse informs PNA, PLC or PLM if it has effected pre-registration in name of PLC that pre-registration has been accepted or denied via Sisbex-Registration system screens, LTP system screens and, if PNA, PLC or PLM has associated MSG,

via BMA0002 if pre-registration is accepted or via BMA0003 if pre-registration is denied;

- PNA or PLC registers in Selic purchase and sale leg of repo with resale and repurchase leg to be settled by Clearinghouse, via SEL1054 or Selic terminal;
- Selic analyzes registration, settling or denying transaction;
- In the event of settlement, Selic informs Clearinghouse via SEL1620, thereby converting pre-registration with Clearinghouse into acceptance of resale and repurchase leg without need for new command from PNA or PLC;
- Clearinghouse updates status of pre-registered transaction in LTP system queries and sends new BMA0002 confirming registration to PNA, PLC or PLM if MSG is associated.

Should a PLC, directly or via its PLM, or PNA choose not to effect migration after effecting pre-registration, it can request cancellation of pre-registration by the Clearinghouse, reestablishing its trading limit and that of the PNA's MC where appropriate. Cancellation of pre-registration is subject to authorization by the Central Bank of Brazil, which analyzes the necessity of settling the respective purchase and sale transaction, among other aspects.

The flow of Selic-to-Clearinghouse migration pre-registration cancellation comprises the following steps:

- PNA or PLC, the latter directly or via its PLM, requests cancellation of pre-registration of Selic-to-Clearinghouse migration transaction by Sisbex-Registration;
- Clearinghouse sends message SEL1100 to Selic to verify possibility of pre-registration cancellation;
- Selic informs Clearinghouse whether pre-registration cancellation has been accepted or denied via SEL1100R1;
- Clearinghouse informs PNA, PLC or PLM if it has submitted request in name of PLC that cancellation of pre-registration has been accepted or denied via Sisbex-Registration screens;
- If cancellation is accepted, Clearinghouse sends BMA0003 to PNA, PLC or PLM with associated MSG if it has submitted request in name of PLC, and updates LTP system ready for querying.

Pre-registrations remaining after the end of the period for trade execution and registration are automatically cancelled by the Clearinghouse.

Amounts paid by the issuer as interest or amortization on the securities involved in Selic-to-Clearinghouse migration transactions from the business day following the date on which the purchase or sale leg is settled in Selic until and including the date on which the resale and repurchase leg is settled, updated by the Selic Rate, and amounts paid for redemption of such securities are included for netting purposes in the participants' multilateral balances on the date of settlement of the resale and repurchase leg. These balances are computed taking into consideration the funds owed by the participant committed to resale and the corresponding credit right of the participant committed to repurchase.

The update to which the previous paragraph refers is calculated from the date of payment by the issuer until the date of settlement of the resale and repurchase leg.

ii. Clearinghouse to Selic

Transactions involving migration from the Clearinghouse to Selic are specific collateral repos in which the purchase and sale leg is registered and settled in the Clearinghouse and the resale and repurchase leg is registered and settled in Selic.

The Clearinghouse accepts for settlement Clearinghouse-to-Selic migration transactions in which the purchase and sale leg is settled on T+0 and the resale and repurchase leg is settled on T+n when n is greater than or equal to zero. The date of settlement of the resale or resale leg is limited in accordance with Selic rules.

The flow of Clearinghouse-to-Selic migration transaction registration comprises the following steps:

- PNA or PLC, the latter directly or via its PLM, requests registration of Clearinghouse-to-Selic migration transaction by Sisbex-Registration;
- Clearinghouse checks request's compliance with all conditions established for transaction, and submits it to Risk Management System for analysis;
- Clearinghouse informs PNA, PLC or PLM if it has effected registration in name of PLC that transaction has been accepted or denied via Sisbex-Registration screens. If transaction is accepted, Clearinghouse informs PNA or PLC via LTP system screens and, if PNA or PLC has associated MSG, via message BMA0002;
- Within time frame established by Circular Letter, PNA or PLC confirms account to be used to settle transaction via LTP system screens or, if MSG is associated, via BMA0029, also informing number of purchase and sale transaction to be registered by Selic if it is seller of securities involved;
- After period for requesting cancellation of transactions to be settled on T+0 has elapsed, Clearinghouse sends Selic information on migration transaction via SEL1031;
- Information is stored by Central Bank, which informs Clearinghouse via SEL1031R1 of number of repurchase and resale transaction to be booked;
- Clearinghouse forwards number of repurchase and resale transaction to PLC or PNA via LTP system screens or, if MSG is associated, via BMA0030.

On T+n, the PNA or PLC must order the repurchase and resale transaction in Selic via SEL1056 or a Selic terminal, using the number attributed by the Clearinghouse.

Amounts paid by the issuer as interest or amortization on the securities involved in Clearinghouse-to-Selic migration transactions from the business day following the date on which the purchase and sale leg is settled by the Clearinghouse are subject to the procedure applied to repos registered with Selic.

T+0/T+n Clearinghouse-to-Selic migration transactions are registered on T+0, and the rights and obligations in securities and funds arising from the purchase and sale transaction are incorporated into the net multilateral balance for T+0, with settlement during the Clearinghouse Settlement Window on that day, except in the case of covered trades.

4.3.5 Securities Lending

i. General

The Clearinghouse offers PLCs, directly or via PLMs, as well as PNAs and CFs via PNAs, a Securities Lending Facility (SET), which is operated by the Clearinghouse via Sisbex, involving loans, interchanges, and securities-driven repos.

The Clearinghouse is a contracting party to SET transactions, assuring their settlement at all times including the respective maturities or expiration dates.

All types of securities accepted for settlement by the Clearinghouse can be transacted via SET. The Clearinghouse publishes daily the list of securities eligible for transactions settled via the Clearinghouse and their respective reference prices via files and CTF system queries.

If a security should become ineligible for transactions with settlement by the Clearinghouse, all SET transactions involving the security are automatically cancelled in Sisbex.

The Clearinghouse accepts SET transactions for settlement when the purchase and sale leg, loan or interchange is settled on T+m and settlement at expiration or settlement of the repurchase and resale leg takes place on T+n, where n is greater than m and provided the time limit established in BM&FBOVESPA's Circular Letters is met. The expiration or repurchase and resale of a SET transaction must take place by the date on which the underlying securities mature or on the next business day for a security that matures on a non-business day.

Should the Clearinghouse reduce the maximum time span for settlement, outstanding trades remain unaffected even if they are to be settled in a longer time span. Orders entered but not yet matched are cancelled by Sisbex if they specify settlement in a time span exceeding the new one established by the Clearinghouse, and the participants responsible are notified in accordance with the procedures set forth in the Sisbex Procedure Manual.

Changes to maximum time span and to the list of eligible securities are made by the Clearinghouse preferably after trading hours.

Tenors for SET transactions, including both overall maturity and the date of repurchase and resale, are mutually agreed by the participants when the transaction is closed or registered and must comply with the conditions established in the preceding paragraphs.

Freedom of movement is assured for the underlying securities in SET transactions accepted by the Clearinghouse. Thus underlying securities can be sold outright or posted as collateral, for example. The participant must have available for delivery a security of the same type and maturity as the security loaned or interchanged if netting for the date in question shows it to be a net debtor.

Amounts paid by the issuer as interest or amortization on the securities traded in SET transactions for loans or interchanges from the business day following the date on which the loan or interchange is settled until and including the date on which the loan or interchange matures, and amounts paid for redemption of such securities, are included for netting purposes in the participants' multilateral balances on the date of payment. These balances

are computed taking into consideration the funds owed by the participant committed to delivery of the securities and the corresponding credit right of the other participant.

Amounts paid by the issuer as interest or amortization on the securities traded in SET transactions for securities-driven repos from the business day following the date on which the purchase or sale leg is settled until and including the date on which the resale or repurchase leg is settled, updated by the Selic Rate, and amounts paid for redemption of such securities, are included for netting purposes in the participants' multilateral balances on the date of settlement of the resale or repurchase leg. These balances are computed taking into consideration the funds owed by the participant committed to resale and the corresponding credit right of the participant committed to repurchase.

The updating mentioned in the previous paragraph is calculated from the date of payment by the issuer to the date on which the resale and repurchase leg is settled.

T+m/T+n SET transactions are registered on T+0 and the rights and obligations in securities and funds arising therefrom are incorporated into the net multilateral balance for the respective dates (T+m for the loan, interchange, or purchase and sale leg, T+n for the SET maturity or repurchase and resale leg), with settlement during Clearinghouse Settlement Window hours on the dates concerned, except for covered trades.

Alternatively, the rights and obligations in securities and funds arising from a loan or interchange and the rights and obligations in securities and funds arising from a securities-driven repo may be settled immediately after acceptance of the transaction. Transactions with the option of gross settlement may be executed throughout the entire period for trading with T+n settlement. SET transactions with the option of gross settlement must be covered before being offered or registered, by posting the underlying securities to the Clearinghouse Deposit Account with the stated purpose "SET", or to the Collateral Accounts of any BM&FBOVESPA clearinghouse. In the case of the Securities Clearinghouse and the Derivatives Clearinghouse, securities must be posted to Collateral Accounts with the stated purpose "trade collateral". In the case of the Foreign-Exchange Clearinghouse, the stated purpose must be "reserves".

The following procedures are applicable to all SET transactions involving securities posted to Collateral Accounts of any BM&FBOVESPA clearinghouse:

- Clearinghouse to whose account securities are posted has complete freedom to use collateral while securities are in its account, in accordance with applicable legislation and its own rules. Should participant withdraw sufficient collateral to prevent full execution of transaction as originally called for by offer, Foreign-Exchange or Derivatives Clearinghouse immediately informs Securities Clearinghouse via BMA1105;
- Immediately on being informed of collateral withdrawal, Clearinghouse has all offers or orders cancelled in Sisbex and notifies participant via Sisbex screens and, if MSG is associated, via message BMA0021, notifying clearinghouse from which collateral has been withdrawn via BMA1104;
- Securities interchanges, including those between clearinghouses, comply in real time with the delivery-for-delivery principle.

The rights and obligations in funds arising from loans or interchanges (i.e. premiums), are included in Settlement Window netting for T+m.

Renewal, early settlement and amortization are performed as new transactions and therefore result in the netting of rights and obligations, since repurchase and resale transactions, as well as loan and interchange maturities, are settled on the basis of the net multilateral balance in the Clearinghouse Settlement Window.

The flow of execution and settlement for loans or interchanges with gross settlement of securities delivery comprises the following steps:

- PLC, directly or via its ADM, or PNA, the latter for own account or for account of CF with individualized Custody Account in Selic and not PNA or PLC, posts security to Clearinghouse Deposit Account with stated purpose "SET". Securities thus posted remain automatically available for SET transactions;
- PLC, directly or via its ADM, or PNA, the latter for own account or for account of CF with individualized Custody Account in Selic and not PNA or PLC, may also offer securities posted to Collateral Accounts held by all BM&FBOVESPA clearinghouses for SET transactions via message BMA0019, if MSG is associated, or via GA system screens;
- PNA or PLC, the latter directly or via its PLM, executes or registers transaction in Sisbex;
- Clearinghouse analyzes possibility of accepting transaction and checks compliance with risk management systems of all clearinghouses involved;
- Clearinghouse informs PNA, PLC or PLM, the latter if it executed or registered transaction in name of PLC, regarding transaction acceptance or denial via Sisbex screens;
- If transaction is accepted, Clearinghouse sends BMA0002 to PNA, PLM, PLC or ADM, if MSG is associated, with complete details of transactions and posts them for querying to LTP system;
- Within time frame established by Circular Letter, PNA confirms Custody Account to be used for settlement of transaction via LTP system screens or, if MSG is associated, via BMA0029;
- Clearinghouse informs borrowing participant's BL of monetary amount to be settled (premium) via LTR0001 or LTR0007;
- Within time frame established by BM&FBOVESPA's Circular Letter, borrowing participant's BL transfers funds to Clearinghouse Settlement Account in STR via LTR0004 or, if it has received LTR0007, effects transfers to corresponding current accounts and confirms them via LTR0008;
- Having verified that funds have been credited to its Settlement Account in STR, Clearinghouse transfers funds via LTR0005 to lender's BL and transfers securities to borrower's deposit account, updating status of transaction in Sisbex and LTP, and, if PNA, PLC or ADM has associated MSG, sends another BMA0002;
- If borrower's BL does not transfer funds to Clearinghouse Settlement Account in STR or fails to confirm transfer via LTR0008 within time limit established by BM&FBOVESPA, when this is required, trade is cancelled and Clearinghouse sends BMA0003 to participants and LTR0012 to borrower's BL.

The flow of execution and settlement of securities-driven repos with gross settlement comprises the following steps:

- PLC, directly or via its ADM, or PNA, the latter for own account or for account of CF with individualized Custody Account in Selic and not PNA or PLC, posts

security to Clearinghouse Deposit Account with stated purpose "SET". Securities thus posted remain automatically available for SET transactions;

- PLC, directly or via its ADM, or PNA, the latter for own account or for account of CF with individualized Custody Account in Selic and not PNA or PLC, may also offer securities posted to Collateral Accounts held by all BM&FBOVESPA clearinghouses for SET transactions via message BMA0019, if MSG is associated, or via GA system screens;
- PNA or PLC, the latter directly or via its PLM, executes or registers transaction in Sisbex;
- Clearinghouse analyzes possibility of accepting transaction and checks compliance with risk management systems of all clearinghouses involved;
- Clearinghouse informs PNA, or PLC and its PLM when responsible for executing or registering trade in name of PLC, that settlement has begun via Sisbex or LTP screens and, if MSG is associated, via message BMA0002. If denied, Clearinghouse informs same parties via Sisbex screens;
- Within time frame established by Circular Letter, PNA confirms Custody Account to be used for settlement of transaction via LTP system screens or, if MSG is associated, via BMA0029;
- Clearinghouse informs buying participant's BL of monetary amount to be settled via LTR0001 or LTR0007;
- Within time frame established by BM&FBOVESPA's Circular Letter, buying participant's BL transfers funds to Clearinghouse Settlement Account in STR via LTR0004 or, if it has received LTR0007, effects transfers to corresponding current accounts and confirms them via LTR0008;
- Having verified that funds have been credited to its Settlement Account in STR, Clearinghouse transfers funds via LTR0005 to selling participant's BL and transfers securities to buyer's deposit account, updating status of transaction in Sisbex and LTP, and, if PNA, PLC or ADM has associated MSG, sends another BMA0002;
- If buyer's BL does not transfer funds to Clearinghouse Settlement Account in STR or fails to confirm transfer via LTR0008 within time limit established by BM&FBOVESPA, when this is required, trade is cancelled and Clearinghouse sends BMA0003 to participants and LTR0012 to buyer's BL.

If the Clearinghouse detects divergences in the order for funds transfer via the STR, it notifies the participant concerned. The Clearinghouse makes any corrections it can. Otherwise it returns the funds transferred, reestablishing the requirement for the BL to transfer the funds owed within the time span established.

Similar treatment is applied when message LTR0008 is received with divergent information.

PNA, PLC and ADM may request cancellation of securities allocation to SET transactions for gross settlement at any time, provided the securities are not already involved in settlement processes, via BMA0020 or GA system screens. In this case any offers involving such securities are immediately cancelled in Sisbex, and all participants are notified via Sisbex screens.

SET transactions for settlement in the Settlement Window follow the same operational flow as outright buy and sell trades. Account specification and settlement follow the procedures detailed in Section 6 below.

ii. Loans

The lending participant delivers a given quantity of a security as a loan for a certain term in exchange for a cash premium payable on the date of loan settlement (T+m).

The borrowing participant receives a given quantity of a security as a loan for a certain term and undertakes to pay a cash premium on the date of loan settlement (T+m).

Loans are offered and executed in whole multiples of a round lot. Round lots for SET transactions are defined in BM&FBOVESPA’s Circular Letters.

Loan premiums are calculated as follows:

$$P = Qx_{ref} \left[1 + p \left(\frac{du}{252} - 1 \right) \right]$$

where:

P = is the premium expressed to two decimal places and truncated at the second;

Q = is the quantity;

ref = is the opening reference price on T+m;

p = is the unit premium rate to four decimal places;

du = is the number of business days corresponding to the term in calendar days.

iii. Interchanges

In the interchange transaction, a participant offers a given quantity of a security in exchange for a given quantity of a different security for a certain term, paying or receiving a premium on the date of interchange settlement (T+m). On expiration, the original quantities of the respective securities return to the original holders.

The following interchanges may be offered:

Delivers	Receives
Specific security (round-lot multiple)	Specific security + premium
Specific security + premium	Specific security (round-lot multiple)
Specific security (round-lot multiple)	Generic security + premium
Generic security + premium	Specific security (round-lot multiple)

The expressions “specific security” and “generic security” in the above table may mean both one or several securities. A “specific security” may also be a security representing a basket of generic securities.

If a specific security in a multiple of a round lot is interchanged for a basket of specific securities, the participant that places the offer via Sisbex names the securities in the basket of specific securities.

In interchange transactions involving generic securities, both those with the option of gross settlement and delivery of securities and those with settlement in the Settlement Window, the participant that delivers generic securities must identify them when placing the offer via Sisbex or when using Sisbex to execute a transaction offered by third parties. The

participant that receives generic securities identifies them only when the transaction closes via Sisbex.

In interchange transactions registered with Sisbex-Registration, securities must be duly identified at the time transactions are registered.

When an interchange involving generic securities matures, the participant committed to delivering the generic securities must deliver the same generic securities as those originally received and in the quantities received when the interchange was closed.

When offering interchanges, participants define one of the legs in whole round-lot multiples. As mentioned above, the other leg may involve a single security or a group of securities. If a single security is involved, the Clearinghouse effects the calculations and defines the quantity to be delivered. If a group of securities is involved, the participant responsible for the group of securities in question:

- Must define the quantity of each security in the group when the transaction is settled in the Settlement Window. This definition of quantity must be effected so that the difference between the money values of the securities delivered and received is less than the lowest reference price among those established for the securities in the group; or
- Can opt to define the quantity of each of the securities in the group or leave such definition for the Clearinghouse to do so at its discretion when the transaction is earmarked for gross settlement on delivery of the securities.

For the calculations mentioned in the preceding paragraph, the Clearinghouse uses the following formulas to define the quantities indicated by participants.

The quantity of a given security interchanged for a round-lot multiple of a specific security is computed using the following formula:

$$Q = QLP \times \left(\frac{refLP}{ref} \right) \quad (1)$$

where:

Q = is the quantity of non round-lot multiple securities, leaving out any fraction;

QLP = is the quantity of round-lot multiple securities;

refLP = is the reference price of the round-lot multiple security in the Clearinghouse at opening on T+m;

ref = is the reference price of the non round-lot multiple security in the Clearinghouse at opening on T+m.

In the case of a group of securities interchanged for a round-lot multiple of a specific security, the Clearinghouse computes the quantities of each security in the group and validates the corresponding quantities indicated by the participant using the following formula, in which the securities made available by the participant are used in accordance with the product of the quantity of each security available multiplied by the respective reference price in force at the time the transaction closes, in descending order:

$$Q_i = \left[\frac{P_E \times R_E - Q_1 \times R_1 + Q_2 \times R_2 + \dots + Q_{n-1} \times R_{n-1}}{R_i} \right] \quad (2)$$

leaving out any fractions and complying with the following restrictions:

$$Q_E x R_E - Q_1 x R_1 + Q_2 x R_2 + \dots + Q_n x R_n \leq R_n + 1$$

and

$$Q_1 x R_1 \geq Q_2 x R_2 \geq \dots \geq Q_{n-1} x R_{n-1} \geq Q_n x R_n \geq$$

Where:

Q_i ($i=1, \dots, n$) is the quantity of the security to be delivered or received, in which each index number corresponds to a type of security;

Q_E is the quantity in round-lot multiples of the specific security to be delivered or received;

R_E is the opening reference price on T+m of the specific round-lot multiple security;

R_i ($i=1, \dots, n$) is the opening reference price on T+m of each security in the group of securities to be delivered or received in exchange for the specific round-lot multiple security, in which each index number corresponds to a given security in the group.

In formula (2), if two or more products of the quantity of the security available multiplied by the respective reference are equal, the security with the highest reference price is used first.

When formula (2) is used to compute quantities for transactions requiring gross settlement of securities delivery, the difference between the money values of the securities delivered and received is less than the reference price of the next security to be used by the Clearinghouse in its calculations.

When formula (2) is applied to a transaction involving settlement in the Clearinghouse Settlement Window, such difference must be less than the lowest reference price for the securities in the group, as mentioned above.

The quantities calculated by the Clearinghouse at the time of offer placement are recalculated using formulas (1) and (2), as appropriate, at the time the transaction closes or whenever the reference prices change. If after recalculation any participant no longer displays a sufficient balance and other conditions to maintain the offer, it is immediately cancelled in Sisbex.

The Clearinghouse offers a simulator via the GA system to help participants perform the required calculations relating to the quantities to be interchanged.

Swap premiums are computed using the same formulas and the same procedures described in 4.3.5(ii) above, with the clarification that in a interchange the security considered for the purpose of premium calculation is the security to be received by the participant that will pay the premium.

iv. **Securities-Driven Repos**

The characteristics of securities-driven repos and the specific procedures applicable to them are detailed in 4.3.2 and 4.3.5(i) above.

4.4 Special Procedures

In the event of early redemption or purchase of a large proportion of a given security by the National Treasury or the Central Bank of Brazil, BM&FBOVESPA may declare the cancellation or early expiration of transactions involving such security and of other rights and obligations arising from them, such as those relating to intermediate interest, effecting

financial settlement of the obligation to deliver the securities and other rights and obligations computed until the date of early expiration, if any.

If cancellation or early expiration of transactions is determined, forcing financial settlement of the obligation to deliver the securities and other rights and obligations mentioned above, as announced in BM&FBOVESPA's Circular Letters, the following procedures are adopted:

- Securities-driven repos: the value of the security on the date of repurchase/resale is computed first for the date of early redemption or repurchase based on the originally agreed rate and then adjusted by the Selic Rate from that date until the date set by the Clearinghouse for the corresponding settlement, even though a securities-driven repo is involved. The other rights and obligations computed up to the date of early redemption or repurchase are also adjusted by the Selic Rate;
- Term outright purchase and sale transactions: cancelled with no settlement obligation, along with other rights and obligations computed up to the date of cancellation;
- Loan and interchange transactions: refund of premium downpayment is calculated on the basis of the originally agreed premium prorated daily to the date of early redemption or repurchase and adjusted by the Selic Rate from then until the Clearinghouse effects settlement. The money amount payable to the lender to replace its security is the security's reference price on the date of early redemption/repurchase adjusted by the Selic Rate from then until the date set by the Clearinghouse for the corresponding settlement. The other rights and obligations computed up to the date of early redemption or repurchase are also adjusted by the Selic Rate.

The amounts calculated as specified in this subsection are included in the participants' net multilateral balances on the date set by the Clearinghouse for the corresponding settlement.

5. COLLATERAL RECOMPOSITION

5.1 General

The Clearinghouse may require collateral recomposition by MC or PLC as specified in its Risk Management Manual, owing for example to the marking to market of a participant's portfolio, changes in stress scenarios, rejection of transactions ordered by telephone, or risks associated with generic collateral repos.

Collateral recomposition calls are issued at opening and during the day via GA system screens or message LDL1001.

In addition to the collateral recomposition calls issued at opening and without prejudice to other requirements, collateral recomposition is required preferentially at the following three times of day (Brasília time):

- 10:15;
- 12:20;
- 16:00.

The 12:20 collateral recomposition call may be broad or narrow. A broad collateral recomposition call can be met in the Settlement Window. A narrow collateral recomposition call must be met before the Settlement Window because it refers to risks on transactions to

be settled on the date in question. The type of collateral recomposition call is displayed on GA system screens and notified via message LDL1001.

The value of the last collateral recomposition call communicated to a participant always prevails, regardless of whether a call of the same type has been issued previously.

Following the issuance of a collateral recomposition call and until it is met, participants can enter only into transactions that reduce their risk toward the Clearinghouse.

5.2 Margin Calls

A collateral recomposition call always consists of a money amount and must be met by a pledge to the Clearinghouse Settlement Account with the STR not more than 30 minutes after notification, except in the case of the 12:20 call, which is computed on the basis of risks arising from transactions that will not be settled on the day and can be met in the Settlement Window. The 12:20 call is included in the net balance of funds to be settled on the same day in the Settlement Window and must be met within the time limit established for participants to effect payments or deliver securities owed to the Clearinghouse.

Collateral recomposition calls may be met wholly or partially by pledging federal government bonds accepted as collateral by the Clearinghouse to its Collateral Account with Selic.

The Clearinghouse may at its sole discretion suspend the ability of a given participant or of all participants to effect collateral recomposition in federal government bonds.

If a MC's or PLC's risk-collateral ratio complies with the requirement to reduce risk toward the Clearinghouse after a collateral recomposition call has been issued, the call is deemed to have been met accordingly.

The opening collateral call may be met wholly or partially with the funds which the participant is entitled to receive on the day in respect of redemption, amortization or interest on securities posted to the Clearinghouse Deposit Account by a PLC or securities posted to the Clearinghouse Collateral Account by a PLC or MC.

In order for the 12:20 collateral call based on risks arising from transactions that will not be settled on the day to be met wholly or partially with free securities by a MC or PLC, the securities in question must be posted to the Clearinghouse Collateral Account with Selic by 12:50.

In order for the 12:20 collateral call to be met wholly or partially with funds which a MC or PLC is entitled to receive from the netted result of transactions to be settled on the day, the MC, through the respective PNA, or the PLC must specify the Clearinghouse Collateral Account as the destination for the securities it is entitled to receive. This specification must be made by 13:10, in accordance with the procedures detailed in 6.3.2 below.

If the call is met with securities to be received in the Settlement Window, the MC, through the PNA, or the PLC directly or via its ADM may specify only the quantity of securities it is effectively entitled to receive by virtue of the calculated netting result. Thus when the individual transactions of any participant are considered, if the participant is entitled to receive a given quantity of one security and has the obligation to deliver a different or equal

quantity of the same security, the participant may wholly or partially meet the collateral recomposition call only with the quantity the participant is entitled to receive after netting is finalized.

In the situation addressed in the previous paragraph, should there be failure to deliver a security to which a participant is entitled and which has been specified for collateral recomposition, the security may not be available even though the participant is entitled to it. In this case the participant's right can be met with other securities or in cash, as detailed in Section 7 below.

The ability to meet the 12:20 collateral call with securities a MC or PLC is entitled to receive in the Settlement Window is suspended if the requesting MC or PLC is declared a trade debtor or is declared in default to the Clearinghouse. The ability is restored to the MC or PLC in question once it returns to normal trading status, as stipulated in 7.4 below.

When securities a participant is entitled to receive in the Settlement Window are used, effective transfer of securities to the Clearinghouse Collateral Account occurs at 15:30, solely by order of the Clearinghouse in Selic.

When a margin calls is fully met in any of the ways described in this subsection, individually or cumulatively, participants are notified via message LDL1026 and GA system screens.

6. CLEARING & SETTLEMENT

6.1 General

The Clearinghouse acts as central counterparty and guarantor of transactions for MCs and PLCs, except in the case of transactions with the option of gross settlement.

MC is responsible to the Clearinghouse in each Settlement Window for delivery of securities and payment of funds corresponding to the multilateral netting result of their transactions and those of their customers (PNAs).

PLC is responsible to the Clearinghouse in each Settlement Window for delivery of securities and payment of funds corresponding to the multilateral netting result of their transactions.

If any customer of a PNA fails to effect fully or partially the delivery of securities or payment of funds for settlement of its transactions, the respective MC must do so within the time limit set by the Clearinghouse, without prejudice to the PNA's responsibilities to its MC. In this case the MC must formalize delay or failure by its PNA by means of a submission to the Clearinghouse, which takes any measures it deems appropriate.

6.2 Structure of Settlement Accounts

6.2.1 Settlement Account in STR

The Clearinghouse processes the settlement of rights and obligations in funds arising from the netting of accepted transactions via its Settlement Account in the STR.

MCs and PLCs that are net debtors of funds order their BLs to post the requisite funds to the Clearinghouse Settlement Account in the STR. The Clearinghouse then directly

processes the corresponding transfers from its Settlement Account in the STR to the Bank Reserve accounts of the BLs representing MCs and PLCs that are net creditors.

6.2.2 Settlement Account in Selic

The Clearinghouse processes the settlement of transactions with federal government bonds through its Settlement Account in Selic.

Custodians responsible for Custody Accounts with a net multilateral debtor balance in a given security deliver securities to the Clearinghouse Settlement Account in Selic.

Transfers of securities from the Collateral Accounts held by BM&FBOVESPA's Clearinghouses or the Securities Clearinghouse's Deposit Account to its Settlement Account are effected without the need for orders from participants in Selic.

The Clearinghouse then transfers the securities from its Settlement Account in Selic to the accounts of the Custodians with a net multilateral credit balance in a given security.

6.2.3 Internal Settlement Accounts

The Clearinghouse keeps in its internal settlement accounts records of the stages of securities delivery among participants in the chain of settlement responsibilities.

In the process of securities delivery to the Clearinghouse, the latter records in its internal settlement accounts delivery by:

- CF to PNA;
- PNA to MC;
- MC or PLC to the Clearinghouse.

In the process of securities delivery to the Clearinghouse, the latter records in its internal settlement accounts delivery by:

- The Clearinghouse to MC or PLC;
- MC to PNA;
- PNA to CF.

6.3 Transaction Specifications

All accepted transactions except SET transactions are specified for settlement via a standard Custody Account in Selic named by participants as part of the registration process. Because of the coverage requirement and type of settlement, SET transactions with gross settlement and SET sales or deliveries with settlement in the Settlement Window are flagged for the participant's deposit account with "SET" as stated purpose.

If a participant does not have a sufficient balance in the deposit account specified "SET" for SET sell (or delivery) transactions with settlement in the Settlement Window, the Clearinghouse respecifies the standard Custody Account as the account to be used for settlement and informs the participants via LTP system screens or, if they have associated MSGs, via message BMA0031.

PNA and PLC directly or via its ADM can alter the Custody Account in Selic to be used for settlement. To do so they must first exclude the account previously specified via LTP system screens and, for those with associated MSG, via message BMA0006. They must then include the new desired Custody Account for the same purpose via LTP system

screens or, if they have associated MSG, via BMA0004 or BMA0005. In the case of SET transactions with gross settlement and migration transactions, the account alteration must be effected within the time limit established by Circular Letter, via LTP system screens or, if the PNA, PLC or ADM has an associated MSG, via BMA0029.

Transactions with gross settlement flagged to a Deposit Account may be reflagged only to another Deposit Account or to a Collateral Account.

Should the Clearinghouse detects any transaction that has not been properly specified by the respective time limit, it names the standard account mentioned above as the Custody Account to be used for settlement.

In the case of generic collateral repos, PNA and PLC directly or via its ADM must specify the underlying securities after the transaction closes via LTP system screens or, if they have associated MSG, via BMA0005, as detailed in 6.3.1 below.

6.3.1 Specification of Underlying Securities for Generic Collateral Repos

Specification of the underlying securities for generic collateral repos by PLC directly or via its ADM, or by PNA can be effected via LTP system screens or BMA0005:

- Separately for each individual repo, until 10:55; or
- For Net Loan Positions computed so as to include transactions for which underlying securities have not been specified, until 10:55.

Participants are informed of their Net Financed Balance or Net Financing Balance via LTP system screens or, when they have an associated MSG, via message BMA0013.

Each of the participants with - Net Financed Balance must specify a quantity of securities equal to or greater than each Net Financed Balance based on the opening reference price for the day. Any excess amount of securities specified must be greater than the price considered for any of the securities specified as underlying for the corresponding Net Loan Position.

The Net Financing Balance of a PLC or PNA may reduce the underlying required for one or more Net Loan Positions up to the corresponding money amount, provided the date of Net Financed Balance repurchase is earlier than the resale date for the Net Financing Balance and the provisions of the Risk Management System Manual are observed. In this case the quantity of securities mentioned in the preceding paragraph must be equal to or greater than the Net Financed Balance after the deduction allowed for in this paragraph.

The Clearinghouse may reject the specification of a given security as underlying for a Net Financed Balance or a discrete transaction based on risk analysis, as detailed in the Clearinghouse Risk Management System Manual. If so, the PLC, directly or via its ADM, or the PNA must specify a different security, or alternatively the PLC, directly or via its ADM, or the PNA's MC must first post additional collateral to the necessary level. In the event of lack, insufficiency or incorrectness of data in the specification of such collateral and/or if the deadline for such specification is missed, the Clearinghouse specifies securities from the generic collateral list on behalf of the PLC or PNA at its sole discretion.

Once the underlying securities to be delivered by participants with a Net Financed Balance have been specified, the Clearinghouse distributes the securities delivered as underlying to

PLCs and PNAs with Net Borrow Positions and informs them of the securities allocated to them via LTP system screens or, if they have associated MSG, via message BMA0014.

The distribution mentioned in the preceding paragraph is designed to optimize the netting result in securities for each MC, PLC and PNA so as to obtain a minimum securities delivery requirement on the settlement date. As detailed in subsection 6.5 below, netting results cover many types of transactions, including return legs of repos effected on prior dates, for example.

As a consequence of the risk assessment model used to analyze these transactions, securities to be delivered as underlying to participants with Net Borrow Positions may have to be supplemented with additional collateral by MC or PLC.

If in any of the above situations this collateral recomposition requirement is not met by the MC or PLC with a Net Financed Balance or Net Financing Balance in accordance with the procedures described in Section 5 above, the Clearinghouse closes out the Net Financed Balance or Net Financing Balance of the PLC or all the MC's PNAs via compulsory registration in Sisbex-Registration of repos opposite those considered when the Net Financed Balance or Net Financing Balance is computed.

Distribution of securities as generic underlying may result in Net Borrow Positions for institutions with securities to receive corresponding to money amounts in excess of such positions.

The Clearinghouse makes the necessary adjustment for excess deliverable securities by granting additional limits to the MC or PLC concerned. Adjustment for excess receivable securities is made by reducing the respective limits. Such adjustments are small-scale at the individual level.

It is important to note that the Clearinghouse reports to the Central Bank of Brazil, among other things, on each transaction involving generic underlying. Such reports itemize the lending and borrowing institutions and the transaction rates involved, as well as the Net Financed Balance or Net Financing Balance computed for each PLC and PNA, and the corresponding securities delivered or received.

Participants also receive reports on each transaction they perform, on each of their Net Loan Positions and Net Borrow Positions, and on the underlying securities to be delivered and received, with guaranteed secrecy regarding the participants involved in such transactions where appropriate.

6.3.2 Specification of Custody Accounts

PNA may specify the following Custody Accounts in Selic for settlement purposes:

- Their own accounts;
- CF accounts;
- Securities Clearinghouse Collateral Accounts;
- Foreign-Exchange Clearinghouse Collateral Accounts;
- Derivatives Clearinghouse Collateral Accounts;
- Securities Clearinghouse Deposit Account.

PLC, directly or via its ADM, can specify the following Custody Accounts in Selic for settlement purposes:

- Their own accounts;
- Securities Clearinghouse Collateral Accounts;
- Foreign-Exchange Clearinghouse Collateral Accounts;
- Derivatives Clearinghouse Collateral Accounts;
- Securities Clearinghouse Deposit Account.

Specifying BM&FBOVESPA's Clearinghouse Collateral Accounts allows securities posted to such accounts as collateral to be used to meet securities delivery obligations in the Securities Clearinghouse Settlement Window, provided their release satisfies the risk criteria of the clearinghouse to which they are posted or the rights to receive securities in the Settlement Window are used to meet collateral calls involving any of BM&FBOVESPA's Clearinghouses.

Section 4 details the operating procedures for SET transactions. BM&FBOVESPA's Clearinghouse Collateral Accounts and the Securities Clearinghouse Deposit Account can also be specified for securities delivery and reception in connection with SET transactions, including those with a gross settlement option. The risk criteria of the Clearinghouse to which the securities are posted must also be observed in this case.

For operational reasons, in principle securities can be withdrawn from a Collateral Account against the concurrent posting of others to the same account only in the case of gross settlement of the delivery leg in a SET interchange transaction and not during the Clearinghouse Settlement Window.

When specifying a Deposit Account or a Collateral Account, PLC, directly or via its ADM, and PNA must state the purpose for which they are posting securities and, in the case of the Derivatives Clearinghouse or Foreign-Exchange Clearinghouse Collateral Accounts, the respective customer code.

The same transaction may be flagged to several Custody Accounts, except in the case of interchanges, for which only a Custody Account may be specified. In the event of lack, insufficiency or incorrectness of data in the specification of an account in Selic, the Clearinghouse attributes the transaction to the standard account of the PLC or PNA responsible for specification.

Account specification is part of the Securities Lending Facility operated by the Clearinghouse, and does not affect the rights and obligations of MCs, PLCs or PNAs toward the Clearinghouse.

6.4 Securities Delivery Instruction

As noted in 6.3.2 above, in all transactions PNA must specify a Custody Account for securities delivery instruction. Every account with Selic has a CST responsible for providing settlement instructions. This CST may be the PNA itself or another institution.

Should another CST be responsible for an account specified by an PNA, the Clearinghouse informs it of the delivery instruction for both delivery and reception of securities via LTP system screens or, if it has an associated MSG, via message BMA0007. This CST has until the end of the specification period to accept or reject the securities destination via LTP

systems screens or, if it has an associated MSG, via BMA0008. If it does not accept or fails to respond, the Clearinghouse specifies the PNA's standard account.

The PNA is informed of the CST's acceptance or rejection of the delivery instruction specified via LTP systems screens or, if it has an associated MSG, via BMA0009.

PLC must always specify its CST for delivery or reception of securities. In this case the CST is merely informed of such specification and is not required to accept it.

The selection of securities delivery instruction is part of the service operated by the Clearinghouse to assure securities delivery to participants, CFs and Custody Accounts, and does not affect the rights and obligations of MCs, PLCs or PNAs toward the Clearinghouse.

6.5 Multilateral Netting

The Clearinghouse calculates balances in securities and funds for each MC and PLC via multilateral netting of their rights and obligations, including movement of securities and funds arising from trading transactions, collateral calls, and custody events, among others.

Net multilateral balances are computed without taking into account obligations to deliver securities posted to cover trades or SET transaction-related delivery obligations flagged for gross settlement.

The Clearinghouse informs MCs and PLCs of their rights and obligations arising from multilateral netting for settlement purposes via LTP system screens or, if they have associated MSG, via message BMA0016. MCs and PLCs can access a detailed breakdown of cash rights and obligations arising from multilateral netting via CLF system screens or, if they have associated MSGs, via message BMA0101.

As a special service to assist securities delivery, the Clearinghouse calculates net balances in securities for PNAs and CFs (taking into account the PNAs and MCs responsible for transactions).

Net multilateral balances in securities and funds are computed for PNAs and CFs only for information purposes and do not entail any liability on the Clearinghouse's part for the transfer of securities or funds among MC, PNA and CF.

A participant's net balance in securities for a given settlement date (T+0) is computed taking into account the rights and obligations arising from:

- Purchase and Sale Transactions executed on T+0 and settled on T+0;
- Purchase and Sale transactions executed on T-n and settled on T+n;
- Auction forwards executed on T-n and settled on T+n;
- Purchase and sale legs of T+m/T+n repos executed on T-n;
- Repurchase and resale legs of T+m/T+n repos executed on T-n;
- Collateral pledges to cover Net Loan Positions or Net Borrow Positions;
- T+0/T+n SET loans or interchanges executed on T+0 with the option of gross settlement in the Settlement Window;
- Expiration of T+0/T+n SET loans and interchanges executed on T-n;
- T+0/T+n Clearinghouse-to-Selic migration transactions executed on T+0;
- T+0/T+n Selic-to-Clearinghouse migration transactions executed on T-n;
- Other rights and obligations arising from settlement of transactions.

A participant's net balance in funds for a given settlement date (T+0) is computed taking into account the rights and obligations arising from:

- Purchase and Sale Transactions executed on T+0 and settled on T+0;
- Purchase and Sale Transactions executed on T-n and settled on T+n;
- Auction forwards executed on T-n and settled on T+n;
- Purchase and sale legs of T+m/T+n repos executed on T-n;
- Repurchase and resale legs of T+m/T+n repos executed on T-n;
- Premiums on SET loans and interchanges executed on T+0 within the time limit for same-day settlement;
- Premiums on SET loans and interchanges executed on T-1 after the time limit for same-day settlement;
- T+0/T+n Clearinghouse-to-Selic migration transactions executed on T+0;
- T+0/T+n Selic-to-Clearinghouse migration transactions executed on T-n;
- Results of intermediation by PNAs, including money amounts arising from cent adjustments to transactions involving several participants;
- Collateral recomposition;
- Fines and expenses incurred by trade debtors;
- Other rights and obligations arising from settlement of transactions and securities traded.

It is important to note that in accordance with Central Bank of Brazil instructions, amounts due to and owed by participants are computed separately for each BL, without netting the results of each of the various MCs or PLCs that settle via each BL. Thus the amount due to participants via a given BL corresponds to the sum of the amounts due to the MCs and PLCs that settle their obligations via the BL in question and whose netted financial results display amounts to be received. Conversely, the amount owed by a given BL corresponds to the sum of the amounts owned by the MCs and PLCs that settle their obligations via the BL in question and whose netted financial results display amounts owed.

In general, therefore, BLs with more than one associated MC or PLC may have both amounts to be received and paid on any given day.

6.6 Settlement

6.6.1 Delivery of Securities by Participants

Participants deliver securities to the Clearinghouse Settlement Account in Selic on the dates scheduled for settlement of the respective delivery obligations and taking into account the balances communicated to debtors in securities as a result of multilateral netting, delivery service and accepted destinations. CST access settlement instructions, including the security, maturity date, Custody Account and Selic order number, via LTP systems screens or, if it has associated MSG, via message BMA0015.

The Clearinghouse and CSTs responsible for entering settlement instructions must enter the appropriate securities transfer orders, in accordance with Selic rules, via SEL1023 or Selic terminals.

The Clearinghouse allows partial delivery of securities for participants to discharge obligations, without prejudice to full delivery obligations as and when required. Failure to do so subjects participants to being declared trade debtors or defaulters. CST must request a

new Selic order number for each partial delivery from the Clearinghouse via LTP systems screens or, if it have associated MSG, via message BMA0011.

Securities posted to BM&FBOVESPA Clearinghouse Collateral Accounts or to the Securities Clearinghouse Deposit Account (except those earmarked for trade coverage), if flagged by MC via PNA or by PLC as destined for settlement of their obligations to the Securities Clearinghouse, are transferred by the Clearinghouse in the Settlement Window without any need for additional orders by participants. Securities posted for trade coverage to the Securities Clearinghouse Deposit Account are transferred once traded to the Clearinghouse Settlement Account immediately after the end of same-day settlement trading hours, also without any need for additional orders by participants.

Delivery is deemed effective only when the Securities Clearinghouse receives confirmation of effective securities transfer from the Central Bank of Brazil, except in the case of deliveries associated with auctions or intraday rediscount settlement, the procedures for which are detailed in 6.7 and 6.8 below.

6.6.2 Payment by Participants

MCs and PLCs that are net debtors of funds must effect the required deposits in the Clearinghouse Settlement Account via their BLs the STR, except when using funds posted to the Clearinghouse as collateral and flagged by a participant for use in discharging its payment obligations, in which case they are transferred by the Clearinghouse.

MC or PLC, the latter directly or via its ADM, post collateral for use in discharging their payment obligations via LTP screens or, if they have associated MSGs, via message BMA0010. The deadline for this is 13:15, before the Clearinghouse sends LDL0001 with finalized debit instructions for the BL of MC or PLC.

The BLs of MCs or PLCs that are net debtors of funds must confirm to the Clearinghouse the amounts to be deposited to discharge their customers' obligations. Failure to do so by the deadline is deemed to confirm the amounts communicated by the Clearinghouse.

The BLs of MCs or PLCs that are net debtors of funds must enter funds transfer orders in the STR to have funds transferred to the Clearinghouse Settlement Account in the STR.

The Clearinghouse allows partial payment in installments, without prejudice to the obligation to effect full payment of all the funds required as and when established. Failure to do so subjects participants to being declared trade debtors or defaulters.

Deposits are deemed effective only when the Clearinghouse receives confirmation of effective funds transfer from the Central Bank of Brazil.

The measures taken by the Clearinghouse if it detects divergences regarding amounts or payment methods used by participants are set out in 7.3.1 below.

6.6.3 Delivery & Payment by Clearinghouse

The Clearinghouse coordinates securities delivery and payment of funds simultaneously. This coordination entails the use of internal settlement accounts for securities and funds, as well as the Clearinghouse Settlement Accounts in the STR and Selic.

In the STR, the Clearinghouse orders debits to its Settlement Account and credits to the accounts of the BLs of MCs and PLCs that are net creditors of funds via message LDL0005.

CST access settlement instructions relating to rights to receive securities, including the security, maturity date, Custody Account and Selic order number, via LTP systems screens or, if they have associated MSG, via message BMA0015.

In Selic, both the Clearinghouse and the CSTs responsible for entering settlement instructions order debits to the Clearinghouse Settlement Account and credits to the Custody Accounts with net credit balances in securities. To this end the Clearinghouse uses message SEL1023 and CSTs use the same message or the corresponding order via a Selic terminal.

In order to ensure that the securities delivery process ends ordinarily together with the payment process, the Clearinghouse sends settlement instructions to CSTs by 14:55 whenever possible. In this case, CSTs must enter the orders for which they are responsible into the Selic system by 15:25.

Should a CST responsible for order entry as stipulated in the preceding paragraph fail to do so by the corresponding deadline, the Clearinghouse, regardless of the Custody Account previously specified, effects the transfer of securities from the Settlement Account to:

- A Clearinghouse Collateral Account, with the stated purpose “trade collateral”, to meet a MC’s or PLC’s right to receive securities; or
- The Clearinghouse Deposit Account with the stated purpose “regularization of delivery service”, in all other cases, i.e. when the Custody Account originally specified was the PNA’s own account or those of its customers.

Transfers of securities delivered by the Clearinghouse as described in the preceding paragraph to the originally specified Custody Account can be requested until 11:00 on the following business day by the PNA responsible for the original specification, bearing in mind that:

- Such transfers are subject to risk analysis when securities posted to a Collateral Account are involved;
- Securities are first transferred to the Clearinghouse Settlement Account by sole order of the Clearinghouse and then, in accordance with the procedures described in this item, from the Clearinghouse Settlement Account to the originally specified Custody Account.

Confirmation of securities and funds transfers by the Central Bank of Brazil is deemed to end the Clearinghouse’s role as central counterparty for transactions settled in the settlement cycle concerned.

Transfers of securities and funds are final, irrevocable and unconditional, in accordance with the applicable laws, rules and regulations.

6.6.4 Delivery Restriction Mechanism

The restriction mechanism allows:

- The Clearinghouse to restrict securities delivery to MCs and PLCs that fail to discharge their obligations to it;

- MCs to ask the Clearinghouse to restrict securities delivery to PNAs that fail to discharge their obligations to them;
- PNAs to ask the Clearinghouse to restrict securities delivery to CFs that fail to discharge their obligations to them.

MCs and PNAs may request, release and confirm securities delivery restrictions via LTP system screens or BMA0017 within the established time frame.

Requests from MCs have priority over requests from PNAs.

If a participant that has requested a restriction then releases securities delivery, the securities are delivered to the Custody Account specified previously.

If a participant that has requested a restriction due to failure or default does not release securities delivery or take any further action, the securities are delivered to the participant's restriction account.

Restriction and release requests by MC and PNA are the sole responsibility of requesters. In such cases the Clearinghouse acts as the faithful executor of instructions received.

6.7 Association with Auction Settlement

The Clearinghouse allows PNAs to effect settlement via the Clearinghouse of securities purchases in auctions held by the National Treasury. To do so a participant uses funds that constitute its rights or arise as its obligations during the Settlement Window.

Participants may have net delivery obligations for settlement via the Clearinghouse on the same date that comprise a quantity of securities equal to or greater than the quantity purchased at auction for settlement in this manner.

In this case, during the transaction specification process participants must specify the Clearinghouse Deposit Account and the stated purpose "auction" in sale transactions involving auctioned securities.

When participants do not have net obligations to deliver the auctioned securities, securities purchased at National Treasury auctions are flagged to the Deposit Account with the stated purpose "deposit". This specification can be altered via the procedures described in 6.3 above.

Participants wishing to settle purchases in public offerings via the Clearinghouse must signal this intention before transaction specification by requesting that securities purchased in a public offering be posted to the Deposit Account in accordance with the procedures detailed in Section 3 above.

When the Clearinghouse receives such a request, it checks with the Central Bank of Brazil to make sure the respective purchase at a public offering has been made and earmarked for settlement via the Clearinghouse, as well as to confirm quantity and price information.

Once it has received the confirmation requested from the Central Bank of Brazil, the Clearinghouse updates its systems, including the risk management system, as explained in the Clearinghouse Risk Management System Manual. This information is taken into

account both in the process of accepting transactions with the securities involved in the public offering and for the discharging of participants' delivery obligations involving the same securities.

During the Settlement Window, after the deadline for receiving funds owed by MCs and PLCs with Net Loan Positions and before the period for payment to those with Net Borrow Positions, the Clearinghouse effects payment to the National Treasury using the funds available in its STR Settlement Account. Should such funds be insufficient, owing to default by a MC or PLC, for example, the Clearinghouse uses its liquidity assistance facilities and/or any financing obtained for the securities purchased in the public offering concerned.

The Clearinghouse establishes maximum lots for deposits relating to public offering settlement. This enables it to obtain financing from banks to address any failures by participants to discharge their securities delivery or funds transfer obligations in the settlement process.

Thus any PNA that has a purchase offer accepted by the National Treasury for an amount exceeding the maximum lot established by the Clearinghouse must request public offering settlement in installments, which is permitted by the Central Bank of Brazil and the National Treasury.

The flow of association between public offering settlement for securities purchases and results obtained in the Clearinghouse comprises the following steps:

- Treasury and participant enter order into Selic requesting auction settlement (SEL1007 or via Selic terminal). Participant's order is associated with another order from same participant posting securities to Clearinghouse Deposit Account (SEL1023 or via Selic terminal). Latter order specifies quantity and auction price to be associated with participant's results in Clearinghouse;
- Clearinghouse also posts securities to its Deposit Account, specifying same quantity and price as specified by participant (SEL1023). From this time on, participant's orders can be canceled, via SEL1400 or Selic terminal, only with joint order from Clearinghouse;
- Clearinghouse's order is associated with another order from Clearinghouse transferring securities from Deposit Account to Settlement Account, also specifying same quantity and price, to be executed in Settlement Window (SEL1023);
- Once debtors in funds have discharged obligations to Clearinghouse, latter executes order to transfer securities to Settlement Account and Selic simultaneously processes all Treasury and Clearinghouse account entries while concurrently transferring funds in STR.

In the event of a payment failure in the Settlement Window, the Clearinghouse may need to use securities sold at auction to address the failure. In this situation the order to transfer securities to the Settlement Account is associated with another order by the Clearinghouse to transfer securities to its Property Account (SEL1023). The latter in turn is associated with a repo sale to an institution with which the Clearinghouse has a relationship (SEL1054). In this association, quantity and price do not need to be equal to those specified in previous associations.

The institution that purchases the securities may need to use the intraday rediscount mechanism, in which case a final association is required between the securities purchase entry and an associated transaction to obtain a rediscount (RDC0004).

Should any operational errors occur in the orders entered by the institution that finances the Clearinghouse, the orders entered by the Clearinghouse, participant and Treasury may be cancelled. In this case, all parties must reenter the respective orders to enable the Clearinghouse to proceed with settlement at the established times.

6.8 Association with Intraday Rediscount

The Clearinghouse offers PNAs the possibility of settling:

- Intraday rediscount transactions;
- Payment obligations to the Clearinghouse using securities rights to enter into intraday rediscount transactions.

To this end, in the first case PNAs may present net securities delivery rights for settlement via the Clearinghouse on the same date, with a quantity of corresponding securities equal to or greater than the quantity specified in the rediscount transaction to be paid in this way, and in the second case must present net rights to receive the corresponding securities in a quantity equal to or greater than the quantity specified in the rediscount transaction.

Should a participant fail to present net rights to deliver the securities involved in the rediscount transaction, the securities transferred as a result of settlement of the rediscount transaction in question are posted to the Deposit Account with the stated purpose “deposit”. This specification can be altered in accordance with the procedures described in 6.3 above.

Participants must inform the Clearinghouse of their intention to effect payment or enter into a rediscount transaction with the Clearinghouse’s assistance. This is done by means of a request to post securities to the Clearinghouse Deposit Account with the stated purpose “rediscount settlement” (for the intention to effect payment) or to withdraw securities from the Clearinghouse’s Deposit Account with the stated purpose “rediscount contracting” (for the intention to enter into a rediscount transaction), and by specifying the Deposit Account in transactions with the securities involved in the rediscount transaction.

Should a participant’s transactions posted to the Deposit Account with the stated purpose “rediscount contracting” exceed the volume to be processed by the Clearinghouse, the latter alters the Custody Account to be used for settlement to the standard account and informs the participant via LTP system screens or, if it has an associated MSG, via message BMA0031.

Requests to post securities to the Deposit Account in the case of payment for rediscount transactions, and requests to withdraw securities from the Deposit Account in the case of entering into rediscount transactions must be effected before trading transactions are specified, in accordance with the procedures detailed in Section 3 above.

When the Clearinghouse receives a request to post or withdraw securities, it checks with the Central Bank of Brazil whether a rediscount transaction can be entered into or already exists with payment outstanding, as well as confirming quantity and price information.

Following confirmation from the Central Bank of Brazil, the Clearinghouse updates its systems, including the risk management system, as explained in the Clearinghouse Risk

Management System Manual. This information is taken into account both in the process of accepting transactions with the securities involved in the rediscount transaction and for the discharging of participants' delivery or payment obligations, as the case may be.

During the Settlement Window, after the deadline for receiving securities and funds from MCs and PLCs with Net Loan Positions and before the period for payment of funds and securities delivery to those with Net Borrow Positions, the Clearinghouse effects payment of funds or securities delivery to the Central Bank of Brazil using the securities and funds available in its STR Settlement Account and Selic respectively.

Should the funds available in the STR Settlement Account be insufficient, owing to default by a MC or PLC, for example, the Clearinghouse uses its liquidity assistance facilities and/or any financing obtained for the securities involved in rediscount transactions.

Should the funds available in the Selic Settlement Account be insufficient, owing to default by a MC or PLC, for example, the Clearinghouse uses its securities delivery failure treatment mechanisms and/or the proceeds of rediscount transactions.

In light of the need to use the securities involved in rediscount transactions to obtain financing from banks that extend liquidity facilities, the Clearinghouse establishes maximum lots for pledges with the stated purpose "rediscount settlement". In this way it is able to operationalize financing from banks.

It is important to note that the Central Bank of Brazil's systems currently accept only one association of payments of this kind per rediscount transaction. Participants therefore cannot request more than one partial payment with assistance from the Clearinghouse when rediscount transactions are involved.

For a rediscount transaction with securities delivery to a creditor institution, the Clearinghouse informs the Central Bank of Brazil of the transaction and confirms it, after checking that the corresponding securities have been received, directly or by third parties, via SET. If the securities cannot be delivered, in the situations detailed in 7.3.2 below, the intended association will not be ordered. In this case if the funds equivalent to the product of the quantity of securities purchased multiplied by the latest reference price published by the Clearinghouse are less than the value of the rediscount transaction, the participant is notified and its BL must deposit the difference in the Clearinghouse STR Settlement Account via message LDL0014.

The flow of association between intraday rediscount payment and Clearinghouse results comprises the following steps:

- Participant orders payment of rediscount associated with order to post securities for "rediscount settlement" to Clearinghouse Deposit Account (RDC0008 associated with SEL1023). Participant's payment order specifies rediscount quantity and price, which are linked to its netting results by Clearinghouse;
- Clearinghouse also orders posting of securities to Deposit Account, with same quantity and price as participant (SEL1023). Important: from now on, participant's orders can be cancelled only by concurrent order from Clearinghouse (SEL1400);
- Clearinghouse associates this with another order to transfer securities from Deposit to Settlement Account, also with same quantity and price, for execution in Settlement Window (SEL1023);

- If debtors in funds discharge obligations to Clearinghouse, order to transfer securities to Settlement Account is executed and at that time all entries are simultaneously processed by Selic and other Central Bank systems (relating to rediscount and to movement of securities and funds).

Should a payment failure occur in the Settlement Window, the Clearinghouse may need to use securities involved in rediscount transactions to address the failure. In this situation the order to transfer securities to the Settlement Account is associated with another order by the Clearinghouse to transfer securities to its Property Account (SEL1023). The latter in turn is associated with a repo sale to an institution with which the Clearinghouse has a relationship (SEL1054). In this association, quantity and UP do not need to be equal to those specified in previous associations.

Institutions that buy securities from the Clearinghouse may need to use the rediscount facility, in which case an additional association is required between the securities purchase entry and application for a rediscount transaction (RDC0004).

The flow of association between intraday rediscount transactions and securities purchase via the Clearinghouse comprises the following steps:

- Participant enters request for intraday rediscount associated with order for securities withdrawal from Clearinghouse Deposit Account, stated purpose “rediscount contracting” (RDC0004 associated with SEL1023). Participant’s withdrawal order specifies rediscount quantity and price, which are linked to its netting results by Clearinghouse;
- Clearinghouse also orders withdrawal of securities from Deposit Account, with same quantity and price as participant (SEL1023). From now on, participant’s orders can be cancelled only by concurrent order from Clearinghouse (SEL1400);
- Clearinghouse associates this with another order to transfer securities from Settlement to Deposit Account, for execution in Settlement Window (SEL1023);
- If debtors in funds discharge obligations to Clearinghouse, order to transfer securities to Deposit Account is executed and at that time all entries are simultaneously processed by Selic and other Central Bank systems (relating to rediscount and to movement of securities and funds).

If a securities delivery failure occurs in the Settlement Window, the Clearinghouse may need to use funds to be obtained as proceeds of rediscount transactions to address the failure. In this situation the order to transfer securities from the Settlement Account to the Deposit Account is associated with another order by the Clearinghouse to transfer securities from its Property Account to its Settlement Account (SEL1023). The latter in turn is associated with an outright sale or repo sale by the Clearinghouse to an institution with which the Clearinghouse has a relationship (SEL1052 or SEL1054, or the corresponding order via a Selic terminal, when allowed). In this association, quantity and price do not need to be equal to those specified in previous associations.

Institutions that sell securities to the Clearinghouse may need to buy them from other institutions, in which case two additional associations are required, one between the securities sale entry and application for an intraday financing transaction (SEL1054), and another between the intraday financing transaction and a purchase transaction (SEL1052 or the corresponding order via a Selic terminal, when allowed).

6.9 Settlement Cycle

The settlement cycle comprises the following steps:

- Clearinghouse processes settlement of obligations to deliver securities pledged to cover trades;
- Clearinghouse informs MC, PNA and PLC of net multilateral balances in securities and funds via LTP systems screens or message BMA0016;
- Clearinghouse informs CST of entries to be made in Selic for delivery or reception of securities via LTP system screens or BMA0015;
- Clearinghouse informs BLs of each MC's and PLC's net multilateral balance in funds via LDL0001, with separate messages for net creditors and debtors;
- Net debtors in securities ask their CSTs to deliver securities in their name to Clearinghouse Settlement Account in Selic. Securities delivery is effected via message SEL1023 or Selic terminal;
- BLs of MCs and PLCs that are net debtors and creditors of funds confirm amounts received via LDL0003;
- MCs and PLCs that are net debtors of funds, the latter directly or via their ADMs, order their BLs to transfer funds to Clearinghouse Settlement Account in STR via LDL004;
- Clearinghouse processes transfers relating to participants' securities delivery obligations associated with auction or rediscount settlement and to participants' payment obligations associated with rediscount contracting;
- Clearinghouse processes deliveries and payments, crediting securities and funds to net creditors. Payment by Clearinghouse to net creditors of funds is effected via message LDL0005.

In the event of complete or partial securities delivery failure by MCs or by PLCs that are net debtors, the Clearinghouse uses its mechanisms for treatment of securities delivery failure, in accordance with the procedures detailed in Section 7 below.

In the event of complete or partial funds delivery failure by MCs or by PLCs that are net debtors, the Clearinghouse uses its mechanisms for treatment of payment failure, in accordance with the procedures detailed in Section 7 below.

7. TREATMENT OF FAILURE & DEFAULT

7.1 General

Whenever so required, MCs and PLCs assume obligations with regard to collateral recomposition, securities delivery and payment of funds.

The Clearinghouse, considered systemically important by virtue of the Central Bank of Brazil's rules and regulations, assures the "certainty of settlement" of the net multilateral balances of MCs and PLCs settled with its assistance and in accordance with its Rulebook.

This means that in the event of complete or partial failure by MCs and PLCs that are net debtors to settle obligations in securities and funds, the Clearinghouse assumes and settles any commitments that are not honored, delivering securities and funds to net creditors in the manner established. Similarly, if a PLM fails to name by the established deadline the PLC responsible for settlement of any transaction it executes, the Clearinghouse assumes and settles the corresponding obligations to net creditors.

Participants that fail to comply with any securities delivery, payment or collateral recomposition requirement from the Clearinghouse are initially declared trade debtors and may be declared in default by decision of BM&FBOVESPA's Executive Board.

If a MC or PLC is declared a trade debtor by the Clearinghouse, the following consequences flow:

- Imposition of restrictions on delivery of the trade debtor's rights in the Settlement Window, with transfer and immediate blocking of such rights in securities to the Clearinghouse Collateral Account in Selic and of rights in funds to the appropriate account of the Clearinghouse with its bank, suspending the ability to use such rights in securities to meet the 12:20 collateral recomposition call;
- Imposition of restrictions on the crediting of events arising from securities pledged as trade collateral and on the execution of trades in Sisbex;
- Blocking of collateral delivered by the trade debtor to the Clearinghouse, albeit allowing substitution of collateral subject to risk management criteria. It is important to note that during the Settlement Window any collateral substitution requested by a trade debtor is also subject to authorization from the Clearinghouse's Department of Operations & Planning;
- Imposition of a fine;
- Possible use by the Clearinghouse of the trade debtor's rights, of all the collateral the trade debtor has pledged to the Clearinghouse directly or indirectly, and of its share in the Guarantee Fund to discharge the Clearinghouse's obligations to non-defaulters participants;
- Other consequences at the sole discretion of BM&FBOVESPA.

Declaration of a MC or PLC as a trade debtor is always communicated to the Central Bank of Brazil, with a description of the causes and of the procedures adopted by the Clearinghouse, as well as all the documentation required for analysis by the authorities.

Declaration of a participant as a defaulter is not only communicated to the Central Bank of Brazil but also published externally by BM&FBOVESPA in a notice to the markets.

Any PLM that fails to comply adequately with the requirement to appoint a PLC responsible for settlement of a transaction is deemed to have committed a fault equivalent to delinquency in securities delivery, payment or collateral recomposition, and is subject to suspension from BM&FBOVESPA's systems by decision of BM&FBOVESPA's Executive Board.

The following consequences flow from failure to comply with the requirement to appoint a PLC responsible for settlement of a transaction:

- Imposition of restrictions on delivery of the rights arising from transactions performed by the PLM when no PLC has been correctly appointed responsible for settlement, with transfer and immediate blocking of such rights in securities to the Clearinghouse Property Account in Selic and of rights in funds to the appropriate account of the Clearinghouse with its bank;
- Imposition of a fine on the PLM, calculated exactly if it applied to a trade debtor and payable within the same time limits via a cash deposit to the Clearinghouse's current account;
- Possible use by the Clearinghouse of the rights arising from transactions performed by the PLM when no PLC has been correctly appointed responsible for settlement

and of the Operational Fund to discharge the Clearinghouse's obligations to non-defaulters participants;

- Other consequences at the sole discretion of BM&FBOVESPA.

Failure to comply with the requirement to appointed a PLC responsible for settlement of a transaction is always communicated to the Central Bank of Brazil, with a description of the causes and of the procedures adopted by the Clearinghouse, and to the Securities & Exchange Commission (CVM), with all the documentation required for analysis by the authorities.

If the participant is suspended from BM&FBOVESPA's systems, this penalty is not only communicated to the Central Bank of Brazil and CVM but also published externally by BM&FBOVESPA in a notice to the markets.

This section describes the procedures and criteria used by the Clearinghouse to manage failures in the settlement of participants' obligations toward it and in appointing PLC responsible for settlement of transactions, as well as the procedures implemented in the event of imposition of a special regime on a participant in Sisbex or the Clearinghouse. Initially it describes the procedures for dealing with failure by MCs or PLCs to meet the Clearinghouse's collateral recomposition requirements. Next it details the procedures used to address failure to discharge securities delivery and funds payment obligations or to appoint PLC responsible for transaction settlement. Finally it addresses the treatment of failure in providing securities delivery service to the accounts specified by participants.

7.2 Failure to Comply with Collateral Recomposition Requirements

Collateral recomposition requirements arise whenever the Clearinghouse's exposure to any participant is deemed to exceed the level of collateral posted to it by the participant, according to its risk assessment criteria.

Failure to comply with a collateral recomposition requirement means not doing so in the ways and within the time frames described in Section 5 above.

Any participant deemed to have failed to comply with a collateral recomposition requirement is declared a trade debtor and subject to the consequences listed in 7.1 above, including imposition of a fine.

Fines imposed on participants declared trade debtors for failing to comply with a collateral recomposition requirement are established from time to time by BM&FBOVESPA in Circular Letters and are placed entirely in the Operational Fund. Participants must pay them in the subsequent Settlement Window even when this occurs on the following business day.

MC and PLC are notified of such fines via CLF system screens or, if they have associated MSGs, via message BMA0102.

If a collateral recomposition requirement derives wholly or partially from definition of underlying securities to be delivered or received in connection with generic collateral repos, treatment of failure with regard to the portion to which such requirement applies consists of compulsory transactions designed to close out each MC's or PLC's Net Financed Balance or Net Financing Balance. It is important to note that in the case of a MC such transactions are designed to close out each Net Financed Balance or Net Financing Balance of all the

PNAs associated with it and the transactions taken into account in computing the positions concerned.

7.3 Failure to Discharge Securities Delivery and Funds Payment Obligations in the Settlement Window

Settlement of participants' obligations is effected via accounts held by the Clearinghouse in the STR and Selic.

Any MC or PLC deemed to have failed to comply with the obligation to deposit or pledge securities and/or funds is declared a defaulter trade debtor by the Clearinghouse, with the consequences listed in 7.1 above, including imposition of a fine.

If the Clearinghouse deems any PLM to have failed to appoint a PLC responsible for transaction settlement, it takes the necessary measures, taking into consideration the consequences listed in 7.1 above, including imposition of a fine.

MC and PLC are notified of the fines imposed for failure to comply with the obligation to deposit or pledge securities and/or funds. PLM is notified of the fines imposed for failing to appoint a PLC responsible for transaction settlement. Notices of fines imposed on MC and PLC via CLF system screens or, for participants with associated MSG, via message BMA0102. PLM is notified by telephone and electronic message.

Fines imposed on participants declared trade debtors for failing to comply with the obligation to deposit funds in the Settlement Window correspond to a fixed percentage of the amount due and not paid. They are established from time to time by BM&FBOVESPA in Circular Letters and placed entirely in the Operational Fund. Participants must pay them in the Settlement Window immediately following the date on which the failure occurs. Half the value of the fine is waived if a participant declared a trade debtor effects the deposit on the date of the failure.

Fines imposed on participants declared trade debtors for failing to comply with the obligation to deliver securities correspond to a percentage of the securities not delivered on time, based on the latest reference price. They must be paid by 15:00 on the day, i.e. up to 30 minutes after the time limit for securities or funds to be posted to the Clearinghouse Settlement Account. The percentage varies according to the security and takes into account the stress scenario established by the Clearinghouse.

The fines described in the previous paragraph are paid to the Clearinghouse, which allocates half to the Operational Fund and the other half to non-defaulters participants that, owing to treatment of failure to deposit securities described in 7.3.2 below, may receive funds or other securities instead of the securities originally specified, in proportion to the funds or substitute securities delivered to each non-defaulter participant. Half the value of the fine is waived if a participant declared a trade debtor effects delivery of the securities concerned on the date of the failure, without prejudice to the portion allocated to non-defaulters participants.

Notice to pay fines for failure to deliver securities is served to the corresponding BL via message LDL0013, and transfer of funds for payment of such fines is effected via LDL0014.

The fine imposed for failure to appoint a PLC responsible for transaction settlement must be paid by the PLM whose responsibility it is to do so. If the obligation arising from the transaction is to pay funds, the fine owed by the PLC corresponds to the same fixed percentage as that established for the fine imposed for failure to post funds in the Settlement Window, as described above, and is entirely allocated to the Operational Fund. The PLM has until 14:30 on the following business day to effect payment of the fine by depositing it in the current account named by the Clearinghouse. Half the value of the fine is waived if the amount due is deposited on the date of the failure. If the obligation arising from the transaction for which a PLC responsible for settlement has not been properly appointed is to deliver securities, the fine owed by the PLM is calculated in the same manner as the fine owed for failing to deliver securities and must be paid by 15:00 on the same day via deposit in the current account named by the Clearinghouse. This fine accrues to the Clearinghouse, which allocates half to the Operational Fund and the other half to non-defaulters participants that may receive funds or other securities instead of the securities originally specified, in proportion to the funds or substitute securities delivered.

Besides the declaration that the participant is a trade debtor, failure to effect payment of funds or deliver securities may have the following consequences by decision of BM&FBOVESPA's Executive Board:

- Imposition of restrictions on Sisbex access for the participant responsible for the failure, including for example a ban on uncovered trading for a given period;
- Suspension of the participant from trading on Sisbex;
- Declaration that the participant is in default, with notification of the authorities and publication in BM&FBOVESPA notices to the market;
- Other restrictions on the participant responsible.

Failure to appoint a PLC responsible for transaction settlement, which is always communicated to the authorities, may have the following consequences for the PLM responsible by decision of BM&FBOVESPA's Executive Board:

- Imposition of restrictions on Sisbex access for the PLM responsible for the failure, including for example a ban on uncovered trading for a given period;
- Suspension of the PLM from trading on Sisbex;
- Other restrictions on the PLM responsible.

7.3.1 Failure to Effect Payment of Funds

Failure to effect payment of funds in the Settlement Window means the BL not posting the full amount required from MCs or PLCs to the Clearinghouse Settlement Account in the STR in the form and at the time established by the Clearinghouse.

If the Clearinghouse detects divergences in an order for funds transfer via the STR, it notifies the participant concerned. The Clearinghouse makes any corrections it can. Otherwise it returns the funds transferred, reestablishing the requirement for the BL to transfer the funds owed within the time span established.

Responsibility for failure to effect payment of funds may be imputed to BL, PLMs or PLCs.

BL assume an obligation toward participants to transfer to the Clearinghouse Settlement Account in the STR the funds made available to them for settlement of the participants' obligations to the Clearinghouse not later than 14:30 via message LDL0004. BLs also assume the obligation to make immediately available to participants the funds transferred

by the Clearinghouse via LDL0005 in the STR as a result of the settlement of obligations to participants by the Clearinghouse.

BL has a duty to inform the Clearinghouse not later than 14:00 via message LDL0003 regarding funds that are owed by MCs or PLCs and will probably not be posted to the Clearinghouse Settlement Account in the STR. Such information from a BL does not entail a declaration that the participant is a trade debtor or in default, which follows automatically only if the funds are not duly transferred by the required deadline.

If responsibility is imputed to a BL for failure to post funds or for not posting the full amount required without reporting failure to effect payment by a MC or PLC, the Clearinghouse takes the necessary measures to settle its obligations toward all other participants in the Settlement Window. Such measures may include declaring all MCs and PLCs that settle obligations via the BL concerned to be trade debtors unless they post the required funds via another BL in good time.

MCs and PLCs have a duty toward the Clearinghouse to ensure that the funds required to settle their obligations are transferred in good time via their BLs to the Clearinghouse Settlement Account in the STR.

The fact that failure is imputed to a BL does not exempt MCs or PLCs from their responsibilities to the Clearinghouse. In the event of failure by a BL to effect payment, they have a duty to assure transfer of the requisite funds in good time via a different BL, regardless of whether they have already deposited with the BL responsible for the failure the funds required to settle their obligations to the Clearinghouse.

In situations such as the one cited in the preceding paragraph, participants must notify the Clearinghouse's Department of Operations & Planning that a new BL has been appointed. Notification by telephone is allowed but must be formalized by letter.

MCs and PLCs that have current accounts with banks are also obliged to name two BLs when registering with the Clearinghouse, in order to establish their preference for routine trade settlement. Selecting BLs is the sole responsibility of participants. Should the Clearinghouse be unable to deposit funds in BLs preferred by participants, it credits the BLs named as alternative or secondary.

If the Clearinghouse detects failure to post required funds in the Settlement Window, in addition to declaring the MC or PLC in question to be a trade debtor, it takes measures that assure fulfillment of its obligations to other participants in the Settlement Window, including coverage of the costs incurred in the process, with strict observance of the time established for this purpose and giving preference to the following sequence:

- Use of cash collateral posted by the participant declared a trade debtor;
- Use of funds available in a BM&FBOVESPA collateral account with a bank;
- Compulsory execution in Sisbex of T+0/T+1 repos with a gross settlement option in the trade debtor's name, considering the best offer available by Sisbex criteria, or compulsory registration of trades with Clearinghouse financing institutions in the trade debtor's name, using for this purpose the securities on which it has imposed restrictions regarding delivery to the participant;
- Compulsory execution in Sisbex of T+0/T+1 repos with a gross settlement option in the trade debtor's name, considering the best offer available by Sisbex criteria, or

compulsory registration of trades with Clearinghouse financing institutions in the trade debtor's name, using for this purpose the collateral in securities posted by the MC or PLC declared a trade debtor;

- Execution of T+0/T+1 repos for settlement in Selic with financing institutions, using for this purpose the securities on which it has imposed restrictions regarding delivery to the participant;
- Execution of T+0/T+1 repos for settlement in Selic with financing institutions, using for this purpose the collateral in securities posted by the MC or PLC declared a trade debtor;
- Use of funds contributed to the Guarantee Fund by the defaulter MC;
- Use of additional funds from the Guarantee Fund in the case of a defaulter MC;
- Use of funds from the Operational Fund.

Amounts deposited by MC or PLC to cover only partially the funds required in the Settlement Window are used first to fulfill the Clearinghouse's obligations to other participants; second, if there is a remainder, to meet any collateral calls; and lastly, to cover any other financial obligations to the Clearinghouse such as fines.

Funds posted in excess of requirements are refunded to the BL concerned, preferably after the Settlement Window closes on the day.

Funds posted to the Clearinghouse Settlement Account in the STR near closing time for Clearinghouse activities, after closing time or on days when it is not operating can be refunded on the first subsequent day when it is operating.

If the Clearinghouse detects failure by an PLM to appoint the PLC responsible for settling a transaction that gives rise to an obligation to effect payments to third parties, it takes measures that assure fulfillment of its obligations to other participants in the Settlement Window, including coverage of the costs incurred in the process, with strict observance of the time established for this purpose and giving preference to the following sequence:

- Use of funds available in a BM&FBOVESPA collateral account with a bank;
- Execution in Sisbex of purchases and sales transactions with a gross settlement option, considering the best offer available by Sisbex criteria and using for this purpose the securities that constitute reception rights arising from the transaction;
- Execution of purchases and sales transactions for settlement in Selic, using for this purpose the securities that constitute reception rights arising from the transaction;
- Execution in Sisbex of T+0/T+1 repos with a gross settlement option, considering the best offer available by Sisbex criteria, or registration of trades with Clearinghouse financing institutions using for this purpose the securities that constitute reception rights arising from the transaction;
- Execution of T+0/T+1 repos for settlement in Selic with financing institutions, using for this purpose the securities that constitute reception rights arising from the transaction;
- Use of funds from the Operational Fund.

7.3.2 Failure to Effect Delivery of Securities

Failure to effect delivery of securities means not posting the required quantity of securities at the established time to the Clearinghouse Settlement Account in Selic in fulfillment of obligations arising from multilateral netting results.

Responsibility for failure to effect delivery of securities may be imputed to CSTs, MCs or PLCs.

CST assumes an obligation toward participants to transfer to the Clearinghouse Settlement Account in Selic on their behalf the securities made available to them for the settlement of the participants' obligations to the Clearinghouse. CST also assumes the obligation to make immediately available to participants the securities transferred by the Clearinghouse to its Custody Account as a result of the settlement of obligations to participants by the Clearinghouse.

CST have a duty to inform the Clearinghouse not later than 14:00 by telephone regarding securities that are owed by MCs or PLCs and will probably not be posted to the Clearinghouse Settlement Account in Selic.

MCs and PLCs have a duty toward the Clearinghouse to ensure that the securities required to settle their obligations are transferred in good time to the Clearinghouse Settlement Account in Selic.

The fact that failure is imputed to a CST does not exempt MCs or PLCs from their responsibilities to the Clearinghouse. In the event of failure by a CST to deliver securities, they have a duty to ensure transfer of the requisite securities in good time.

In situations such as the one cited in the preceding paragraph, participants must notify the Clearinghouse's Department of Operations & Planning that a new CST has been appointed. Notification by telephone is allowed but must be formalized by letter.

If the Clearinghouse detects a failure to post required securities, in addition to declaring the MC or PLC in question a trade debtor, it takes measures that assure fulfillment of its obligations to other participants in the Settlement Window, with strict observance of the times established for this purpose.

In this case procedures adopted by the Clearinghouse to fulfill its obligations to non-defaulters participants in the Settlement Window preferably follow the sequence below in succession until all the required securities are properly allocated. The Clearinghouse:

- Seeks to obtain securities via SET as a compulsory loan in the trade debtor's name with the option of gross settlement, considering the offers available on the basis of the criteria used by Sisbex, which orders them according to the best prices and gives priority to the offer with the nearest maturity;
- Seeks to obtain securities via SET in a compulsory one-day interchange in the trade debtor's name with the option of gross settlement, delivering collateral and securities subject to delivery restrictions and considering the best offer available on the basis of the criteria used by Sisbex;
- Seeks to obtain securities via SET as a compulsory T+0/T+n securities-driven repo in the trade debtor's name with the option of gross settlement, considering the offers available on the basis of the criteria used by Sisbex, which orders them according to

the best prices and gives priority to the offer with the nearest maturity for the resale leg;

- Seeks to obtain securities as a compulsory T+0/T+n repo in the trade debtor's name with the option of gross settlement, if necessary via trading posts considering the offers available on the basis of the criteria used by Sisbex, which orders them according to the best prices and gives priority to the offer with the nearest maturity for the resale leg;
- Seeks to obtain securities in an outright trade in the trade debtor's name with the option of gross settlement, considering the offers available on the basis of the criteria used by Sisbex, which orders them according to the best prices;
- Seeks to obtain securities from other participants and intermediaries previously accredited for the purpose, via a repo with settlement in Selic, for same-day settlement with return commitments for settlement on the next business day;
- Seeks to purchase securities outright from previously accredited intermediaries in a spot trade with settlement in Selic;
- Seeks to purchase securities from the Central Bank of Brazil via accredited institutions;
- Seeks to obtain securities via SET as a compulsory interchange in the trade debtor's name lasting two business days or more, delivering collateral and securities subject to delivery restrictions, considering the best offer available on the basis of the criteria used by Sisbex, and giving preference to the offer with the nearest maturity.

The Clearinghouse's risk management system accepts the compulsory transactions mentioned in the previous paragraph even if the defaulter participant's trading limit is overstepped by such acceptance. In this case a collateral recomposition call is imposed on the trade debtor, which must comply within 30 minutes.

Should funds have to be disbursed for any of the above procedures, they come first and foremost from the defaulter participant's financial rights, and secondarily in accordance with the procedures described in 7.3.1 above, in that same sequence.

When securities are obtained via a interchange that entails reception of a premium, the procedures established for the participant's rights to funds apply to the amount corresponding to the premium.

If the Clearinghouse detects a failure by a PLM to appoint the PLC responsible for settlement of a transaction that gives rise to the obligation to deliver securities to third parties, it takes measures that assure fulfillment of its obligations to other participants in the Settlement Window, with strict observance of the times established for this purpose.

In this case the procedures adopted by the Clearinghouse to fulfill its obligations to non-defaulter participants in the Settlement Window preferably follow the sequence below in succession until all the required securities are properly allocated. The Clearinghouse:

- Seeks to obtain securities in an outright trade in Sisbex with the option of gross settlement, considering the offers available on the basis of the criteria used by Sisbex, which orders them according to the best prices;
- Seeks to obtain securities in a T+0/T+n repo with the option of gross settlement, considering the offers available via trading posts on the basis of the criteria used by Sisbex, which orders them according to the best prices, and giving priority to the offer with the nearest maturity for the resale leg;

- Seeks to purchase securities outright from previously accredited intermediaries in a spot trade with settlement in Selic;
- Seeks to obtain securities from other participants and intermediaries previously accredited for the purpose, via a repo with settlement in Selic, for same-day settlement with return commitments for settlement on the next business day.

The procedures adopted to address any disbursement of funds required by the above measures make use of the following, preferably in the order presented:

- The financial rights arising from the transaction in connection with which the failure to appoint a PLC responsible for settlement has occurred;
- Funds available in one of BM&FBOVESPA's Collateral Accounts with banks, to be subsequently recomposed using funds from the Operational Fund;
- Funds from the Operational Fund.

Should it be impossible to obtain all the securities owed as a result of failure to fulfill an obligation in securities or to appoint a PLC responsible for settlement, the Clearinghouse establishes the participants that are entitled to receive the securities not obtained but will not do so immediately, using its own criteria, which take the following aspects into account, among others:

- Participants entitled to receive the securities;
- Among the participants so entitled, those trading via the same PNA;
- Among the participants so chosen, those settling via the same MC;
- Among the participants so chosen, those that have not executed migration transactions or been associated with rediscount transactions;
- Those with the largest quantity to receive.

Having defined the participants that will not receive the securities immediately, the Clearinghouse offers these participants the opportunity to enter into a loan transaction in which the participant declared a trade debtor will compulsorily act as borrower. If any non-defaulter participant rejects this alternative, the Clearinghouse seeks to identify among the trade debtor's collateral and rights, and among the securities that comprise that participant's contribution to the Guarantee Fund, any securities with the same indexation characteristics that may be delivered instead of those traded, with the non-defaulter participant's consent.

The quantity of substitute securities thus delivered must generate a financial value equivalent to that of the securities substituted, based on the latest reference prices published by the Clearinghouse. Should this equivalence not be obtained, the Clearinghouse may offer funds in addition to the substitute securities, so as to achieve financial equivalence with the securities that should have been delivered in the first place.

The option of substitute securities delivery is not offered to participants in the situation in which the original security is associated with a rediscount transaction.

If the Clearinghouse identifies the possibility of delivering substitute securities, it offers non-defaulters participants the following two choices via the screens of the Asset Settlement Monitor (MLA), in addition to receiving appropriate shares in half the monetary penalty imposed as a fine on the defaulter participant:

- Receiving substitute securities in the Settlement Window on the same day, either in the originally specified account or in accounts specified by the recipients; or

- Receiving funds equivalent to the product of the quantity of securities purchased multiplied by the respective reference prices, considering the latest such prices published by the Clearinghouse, in the Settlement Window on the same day.

If any non-defaulter participant chooses the second of these two options, the necessary funds are obtained in accordance with the procedures detailed in 7.3.1 above.

If the Clearinghouse does not offer the option of substitute securities delivery because the original securities are associated with a rediscount transaction, if its search for substitute securities is unsuccessful or if a non-defaulter participant does not specify the desired choice in time, the second option is used.

Following the failure treatment procedures for securities delivery or payment of funds, a new multilateral netting balance is computed for settlement in the Settlement Window, taking into account any restrictions imposed and informing the participants concerned of the changes via LTP system screens, messages LDL0001 and BMA0015, and a recorded telephone call.

7.4 Restoring Normal Trading Status for Participants Declared Trade Debtors and PLM Who Fail to Appoint a PLC Responsible for Settlement

Normal trading status for participants declared trade debtors is restored when they fulfill all the Clearinghouse's requirements by 11:00 on the trading day subsequent to the date on which they were thus declared, including the following requirements and provided they comply with the criteria and procedures detailed in 7.4.1 and 7.4.2 below, which are cumulatively applied:

- Fulfillment of participants' obligations in the Settlement Window;
- Reimbursement of the costs incurred by the Clearinghouse to execute or settle the transactions required for failure treatment, early or on the respective due date;
- Replacement of any funds from the Guarantee Fund and/or Operational Fund used for failure treatment;
- Collateral recomposition;
- Payment of fines imposed for failure to deliver securities.

MC or PLC that fail to comply with collateral calls based on analysis of the risk arising from generic collateral repos have normal trading status restored when transactions are executed to close out the positions of the participants concerned in generic collateral repos and the respective fines are paid.

Restoration of normal trading status for MC and PLC declared trade debtors is always communicated to the Central Bank of Brazil, with a description of the procedures adopted by the Clearinghouse and all the documentation required for analysis by the authorities.

In the case of PLM who fail to appoint PLCs responsible for transaction settlement, normal trading status is considered restored after the following procedures, and those set out in 7.4.1 and 7.4.2 below do not apply:

- Reimbursement of the costs incurred by the Clearinghouse to execute or settle the transactions required for failure treatment, early or on the respective due date;
- Replacement of any funds from the Operational Fund used for failure treatment;
- Payment of fines.

7.4.1 Restoration After Treatment of Failure to Meet Payment Requirements

If failure treatment consists entirely of compulsory transactions in Sisbex, payment obligations are deemed to have been fulfilled and normal trading status is restored for participants declared trade debtors when the following additional requirements are met:

- Replacement of any funds used from the Operational Fund;
- Replacement of amounts relating to the contributions of other participants to the Guarantee Fund, if any have been used;
- Replacement of amounts relating to the contributions to the Guarantee Fund of the participant declared a trade debtor, if any have been used;
- Any collateral recomposition required.

In all other cases, on the business day following the day on which failure occurred the Clearinghouse sends message LDL0013 to the defaulter MC's or defaulter PLC's BL stating the amount not covered in the Settlement Window.

If the BL posts the funds owed to the Clearinghouse Settlement Account in the STR via message LDL0014 by 11:00 on the business day following the day on which failure occurred by order of its client (the defaulter MC or PLC), restoration of normal trading status for the MC or PLC is subject to payment to the Clearinghouse of sufficient funds:

- To cover any costs incurred by the Clearinghouse in any repos executed;
- To replace amounts taken from the Operational Fund, if any;
- To replace amounts relating to the contributions of other participants to the Guarantee Fund, if any have been used;
- To cover any withdrawals from BM&FBOVESPA's collateral accounts and the respective costs incurred;
- To replace amounts relating to the contributions to the Guarantee Fund of the participant declared a trade debtor, if any have been used.

If the funds owed are posted on the day of the failure, in this case via message LDL0005, repurchases and resales relating to any repos executed are settled early, also on the same day, if still possible and accepted by the Clearinghouse's counterparty.

Once any repos executed have been settled and the other conditions have been met, and in the absence of other obligations relating to securities or collateral recomposition, the participant's normal trading status is restored and as a result its remaining rights in securities, funds and collateral used by the Clearinghouse for failure treatment are delivered.

If such remaining rights are delivered on the same day as the failure, the rights in securities are posted to the originally specified accounts and the collateral to the Clearinghouse's Collateral Account in Selic, with the funds being transferred via the STR to the BL of the participant declared a trade debtor.

If the remaining rights are delivered on the next business day, the rights in securities and collateral are posted to the Clearinghouse's Collateral Account in Selic and the funds to the Clearinghouse's collateral accounts with banks.

7.4.2 Restoration after Treatment of Failure to Meet Securities Delivery Requirement

i. Restoration after Resolution of Failure via Compulsory Trades in Sisbex

If failure treatment consists entirely of compulsory transactions in Sisbex, the obligation to deliver securities is deemed to have been fulfilled and normal trading status is restored for participants declared trade debtors when the following additional requirements are met:

- Replacement of funds drawn from the Guarantee Fund, if any;
- Any collateral recomposition required;
- Payment of fines.

Once normal trading status is restored, the participant's remaining rights, i.e. those not used in SET swaps or as collateral, if any, are delivered.

ii. Restoration after Resolution of Failure via Outright Securities Purchases or Repos with Settlement in Selic

If failure treatment consists entirely of outright securities purchase or repo transactions executed by the Clearinghouse with settlement in Selic, the trade debtor's obligation to deliver securities persists, although if this obligation is fulfilled by posting securities to the Clearinghouse Deposit Account with the stated purpose "regularization of delivery", the Clearinghouse has the prerogative of returning the securities to the trade debtor and restoring its normal trading status only after compliance with the requirements detailed in 7.4 above.

The Clearinghouse may effect the outright sale of securities delivered late by a trade debtor to obtain the funds needed to comply with the requirements detailed in 7.4 above, having first offered the trade debtor the alternative of delivering the necessary funds for that purpose.

Any securities delivered late and not used according to the previous paragraph, as well as any remaining rights of the trade debtor, are delivered to the trade debtor in the Clearinghouse Collateral Account when its normal trading status is restored.

iii. Restoration after Resolution of Failure Using Securities Obtained from Central Bank of Brazil

If failure treatment consists entirely of the delivery of securities obtained from the Central Bank of Brazil, the trade debtor's obligation to deliver securities persists. The participant's normal trading status is restored when such delivery is effected to the Clearinghouse provided it has no other unfulfilled obligations and has replaced any funds owed to the Guarantee Fund and paid the fine.

If the trade debtor posts the required securities to the Clearinghouse Deposit Account with the stated purpose "regularization of delivery" by 11:00 on the next business day after the failure, the Clearinghouse settles the transaction whereby securities were obtained from the Central Bank of Brazil.

Any securities delivered by the trade debtor and not used to settle the transaction, as well as the trade debtor's remaining obligations, are delivered to it via the Clearinghouse Collateral Account when its normal trading status is restored.

iv. Restoration after Resolution of Failure via Delivery of Substitute Securities

If failure treatment consists entirely of the delivery of substitute securities, the trade debtor's obligation to deliver securities persists. Once this has been met, however, the Clearinghouse has the prerogative of returning the securities to the trade debtor and restoring its normal trading status provided it has replaced any funds owed to the Guarantee Fund and paid the fine.

If the trade debtor posts the required securities to the Clearinghouse Deposit Account with the stated purpose "regularization of delivery" by 11:00 on the next business day after the failure, the Clearinghouse offers the participants who received substitute securities the opportunity to receive the securities that should have been delivered originally, provided they post the substitute securities to the Clearinghouse Deposit Account with the stated purpose "regularization of delivery".

Any securities delivered by the trade debtor and not accepted by non-defaulters participants, as well as the trade debtor's remaining rights, are delivered to it via the Clearinghouse Collateral Account when its normal trading status is restored.

v. Restoration after Resolution of Failure via Delivery of Funds to Non-Defaulters Participants

If failure treatment consists entirely of the delivery of substitute securities, the trade debtor's obligation to deliver securities persists. Once this has been met, however, the Clearinghouse has the prerogative of returning the securities to the trade debtor and restoring its normal trading status after compliance with the requirements detailed in 7.4 above.

If the trade debtor posts the required securities to the Clearinghouse Deposit Account with the stated purpose "regularization of delivery" by 11:00 on the next business day after the failure, the Clearinghouse offers the participants that received funds the opportunity to receive the securities that should have been delivered originally, provided they deposit the amount paid by the Clearinghouse in its STR Clearinghouse Settlement Account, except the part referring to the fine, on the day they receive the securities to have been delivered originally.

Any securities delivered by the trade debtor and not accepted by non-defaulters participants, the funds returned by them and the trade debtor's remaining rights are delivered to the trade debtor after the requirements detailed in 7.4 above have been met and when normal trading status is restored, in accordance with the destinations indicated in 7.4.1 above.

The amount refunded by non-defaulters participants and transferred to the trade debtor once the requirements detailed in 7.4 above have been met are not augmented by any income even when the refund or transfer occurs on the business day following the failure.

7.5 Declaration of Participant Default

MC or PLC can be declared in default if they fail to restore normal trading status in accordance with 7.4 above.

A declaration of default by MC or PLC entails the following:

- Immediate suspension of acceptance of transactions involving the defaulter;

- Imposition of restrictions on the delivery of any rights to the defaulter in the Settlement Window;
- Blocking of collateral delivered by the defaulter to the Clearinghouse;
- Use in settling the defaulter's obligations to the Clearinghouse of any collateral posted by the defaulter, securities and other assets held by the defaulter as a result of netting or settlement, and funds deriving from amortization, redemption or payment of interest by the issuer on securities held by the defaulter in a Clearinghouse Collateral Account.

If a MC or PLC is declared in default, the Clearinghouse seeks to eliminate its exposure to risk promptly, if necessary effecting an outright sale of any collateral posted by the defaulter and any securities held by the defaulter as a result of netting or settlement, and reversing any repos transacted for failure treatment to convert them into outright transactions. Outright sales are executed via Sisbex or in transactions settled via Selic.

In the situation described in the preceding paragraph, should it prove impossible to sell the securities promptly, the Clearinghouse seeks to transact repos on the same day and makes best efforts to effect an outright sale on the following business day.

If any rights in securities remain in favor of a MC declared in default after its obligations have been met, the Clearinghouse asks the MC formally (by letter or fax) to name the participants to whom such rights are to be credited (to itself entirely, or to itself in part and the rest to other participants it names). This is because if the securities are allocated entirely to the MC it may have difficulty delivering the securities in Selic without financial movement. Any remaining rights in securities in a PLC's favor are immediately directed to the PLC.

Any remaining rights in funds in favor of a MC or PLC after the defaulter's obligations are met are credited to the respective BL via the STR.

As mentioned earlier, BM&FBOVESPA's Executive Board is the competent body to declare a participant in default and to impose other sanctions deemed appropriate, such as restrictions on uncovered trading by a participant if it fails to deliver securities again.

Declaration of a MC or PLC as a defaulter is always communicated to the Central Bank of Brazil, with a description of the causes and of the procedures adopted by the Clearinghouse, as well as all the documentation required for analysis by the authorities.

7.6 Declaration of a Participant's Insolvency, Bankruptcy, Submission to Receivership, Intervention, Composition Proceedings or Workout & Suspension or Exclusion from STR or Selic

Declaration of a temporary special administration regime or appointment of an administrative receiver for any participant in the Clearinghouse entails the suspension of acceptance of any and all transactions involving the participant for settlement by the Clearinghouse until the special administrator or receiver appointed by the Central Bank of Brazil authorizes the Clearinghouse to restore normal trading status for the participant.

Declaration of a participant's insolvency, bankruptcy, or submission to intervention, composition or workout proceedings entails the suspension of acceptance of any and all transactions involving the participant for settlement by the Clearinghouse.

A participant's suspension or exclusion from the STR or Selic entails immediate suspension of the acceptance of any and all transactions executed by the participant for settlement by the Clearinghouse.

In the case of institutions that participate in the STR, such suspension is processed as soon as the respective message (STR0018) is received from the Central Bank of Brazil.

For other institutions, suspension occurs when the Clearinghouse receives notice of one of the above events.

An BL's suspension or exclusion from the STR entails immediate replacement of the original BL by the secondary BL. Participants that would have settled obligations via the BL suspended or excluded from the STR must immediately take appropriate measures, including the transfer of funds from any other banks where they hold funds to secondary BLs, if necessary, and application to have their registration details duly amended. As mentioned above, reception of participants' rights is processed via their registered secondary BL.

A CST's suspension or exclusion from Selic entails its immediate substitution. Participants associated with the CST must immediately take all due measures to effect such substitution.

Funds to which an institution suspended or excluded from the STR is entitled must be kept at the institution's disposal. The Clearinghouse requests instructions from the director responsible, receiver or special administrator as to what procedures to adopt.

The failure treatment procedures indicated are used whenever a participant in any of the situations specified in this subsection fails to discharge its obligations to the Clearinghouse within the time limits set, without prejudice of its characterization as a defaulter, where appropriate, or implementation of the measures called for here.

A review of all registered associations is conducted with regard to participants submitted to any of the regimes specified in this subsection except receivership or temporary special administration.

7.7 Delivery Service Failure

The Clearinghouse acts as central counterparty for MCs and PLCs. It therefore has rights and obligations to deliver or receive securities, and to pay or receive funds, exclusively with regard to these participants.

Some other participants (PNAs and their CFs) have individualized accounts in Selic. Transactions executed in Sisbex directly or indirectly generate results in the form of securities to be received or delivered by such participants, which constitute rights and obligations between PNAs and their MCs, and between PNAs and CFs.

Thus such obligations to deliver securities or rights to receive them between CFs and PNAs, and between PNAs and their MCs, do not involve the Clearinghouse directly, except insofar as it provides the securities movement service in the Selic environment, depending on PNA account specification in accordance with the procedures described in Section 6 above.

Even if a CF's or PNA's account does not hold sufficient securities for a specified transaction, there may or may not remain an obligation upon the MC through which transactions are settled to deliver the respective securities to the Clearinghouse.

Should such an obligation exist for a MC, if the MC fails to discharge it the procedures adopted are those applicable when any participant fails to discharge its obligations. The MC can use other means to discharge its obligations to the Clearinghouse, however, and ask the Clearinghouse not to deliver securities to a specific account at an institution but instead to its own Custody Account; this is termed a "delivery restriction". An identical procedure applies to PNAs and their CFs: thus a PNA may establish a delivery restriction with regard to a specific CF.

Should there be no such delivery obligation for a MC, nevertheless it may ask the Clearinghouse to restrict delivery to a specific account on the grounds of delinquency by a PNA toward that MC.

Any of the failure treatment procedures described in this section involving relations between MCs and PNAs, and between the latter and their CFs, must be conducted by the respective MCs or PNAs.

However, to facilitate the treatment of failures of these kinds by MCs or PNAs, the Clearinghouse may assist such participants with their procedures by accepting securities deposits in its Deposit Account with the stated purpose "regularization of delivery service" and orders to transfer securities between accounts for the same purpose.

In such situations the Clearinghouse acts merely as a service provider, clearly identifying in the information it sends the Central Bank of Brazil all transfers performed to assist failure treatment procedures conducted by MCs or PNAs.

8. GROSS SETTLEMENT

The Clearinghouse processes the gross settlement, i.e. without offsetting or netting, of the rights and obligations in federal government securities pledged to Selic exclusively for Sisbex transactions with the option of gross settlement and for obligations in securities relating to coverage of trades. The procedures applicable to covered trades and transactions with the option of gross settlement are described in Section 4 above.

The present section deals with the procedures used to settle special transactions executed via Sisbex, including those involving other assets than those posted to Selic.

The Clearinghouse acts as a facilitator of special transaction settlement by furnishing the infrastructure required for efficient registration, preparation and settlement of such transactions, and by coordinating settlement, but does not act as central counterparty and guarantor in such cases.

When special transactions are settled on a gross basis, the Clearinghouse coordinates transfers of assets and funds, using the Depository for assets and the STR for funds.

Rights and obligations in funds are not computed to the net multilateral balances in funds of MCs and PLCs, and are transferred via LTR messages as established in the SPB Message Catalogue.

The flow of special transaction registration and gross settlement comprises the following steps:

- Participants in the gross settlement module execute or register special transaction in Sisbex according to procedures established in Sisbex Procedure Manual;
- Sisbex informs Clearinghouse of all transaction details;
- Selling participant delivers assets to Clearinghouse Settlement Account in respective Depository, as appropriate;
- Clearinghouse informs buying participant's BL via message LTR0001 of money amount to be settled;
- Buying participant's BL confirms money amount to be settled via LTR0002;
- Buying participant's BL transfers funds to Clearinghouse Settlement Account in STR via LTR0004;
- After verifying that assets have been credited to its Settlement Account in the respective Depository and funds have been credited to its STR Settlement Account, Clearinghouse transfers funds to selling participant's BL and assets to buying participant via LTR0005, coordinating process of delivery against payment.

The selling participant must deliver the assets and the buying participant's BL must confirm and effect the transfer of the money amount to be settled within the time limits established by the Clearinghouse for each leg of the transaction.

If securities delivery or payment is not effected as and when established, the Clearinghouse deems the transaction not settled. In this case it returns the assets or funds to the participant that has discharged its obligation.

All time limits for the settlement of transactions in the gross settlement module, as well as procedures different from those described in this section, are published in specific notices and manuals for each transaction.

9. TIMES & FEES

9.1 Times

The following table shows the times of the main processes managed by the Clearinghouse or Sisbex.

Process	Time (Brasília)
Clearinghouse opens	07:30
Clearinghouse issues collateral recomposition calls based on overnight processing	07:30
Time limit to meet collateral calls based on overnight processing	08:00
Clearinghouse transfers events relating to securities posted to Collateral and Deposit Accounts	08:00
Start of repo acceptance process	08:00
Start of acceptance process for other transactions	08:00
Time limit for acceptance of transactions settled on T+0, except those with gross settlement	10:15
Time limit for acceptance of T+0/T+n repos, except those with	10:15

gross settlement	
Time limit for specifying final buyer/seller in transactions for settlement on T+0 ordered by telephone	10:30
Time limit for confirming pre-registration of Selic-to-Clearinghouse migration transactions with T+0/T+0 settlement	10:30
Time limit for rejecting transactions with T+0 settlement ordered by telephone	10:40
Time limit for PLC to accept or refuse reallocation to them of transactions with T+0 settlement	10:45
Time limit for PNA to accept or refuse reallocation to them of transactions with T+0 settlement	10:50
Time limit for requests to cancel transactions with T+0 settlement	10:50
Time limit for specifying covered trades with T+0 settlement	10:55
Settlement of obligation to deliver securities in covered trades	10:55
Time limit for specifying underlying securities in generic collateral repos separately (before netting)	10:55
Time limit for previous business day's trade debtors to regularize delivery and/or payment obligations	11:00
Start of period for requesting use of cash collateral to discharge payment obligations in Settlement Window	11:00
Clearinghouse reports Net Financed Balance and Net Financing Balance	11:05
Time limit for participants to specify underlying securities in Net Financed Balance	11:45
Distribution of generic collateral and collateral recomposition calls by Clearinghouse	12:20
Time limit for fulfillment of collateral recomposition calls (based on risk assessment of transactions with T+0 settlement)	12:50
Time limit for fulfillment of collateral recomposition calls (based on risk assessment of transactions with T+n settlement, where n>0)	13:10
Time limit for other specifications regarding transactions with T+0 settlement	13:10
Time limit for requesting use of cash collateral to discharge payment obligations in Settlement Window	13:15
Time limit for acceptance of securities destinations	13:15
Clearinghouse reports net multilateral results	13:30
Start of period for requesting order numbers for staggered securities deliveries	13:30
Time limit for confirming BL and CST	14:00
Time limit for requesting order numbers for staggered securities deliveries	14:20
Time limit for securities delivery and funds payment by participants	14:30
Time limit for participants to request delivery restrictions	14:35
Time limit for payment of fines for securities delivery failures	15:00
Time limit for securities creditors to enter reception orders into Selic when Clearinghouse informs necessary data by 14:55	15:25
Payment and securities delivery by Clearinghouse	15:30
Time limit for securities creditors to enter reception orders into	

Selic when Clearinghouse informs necessary data after 15:25	16:15
Time limit for participants to confirm/lift securities delivery restrictions	16:30
Time for Clearinghouse to cancel in Selic its orders to deliver to securities creditors and transfer securities from its Settlement Account to its Collateral and Deposit Accounts	16:35
Time limit for acceptance of transactions with gross settlement	17:20
Time limit for requesting securities and funds movement	18:00
Time limit for accepting transactions with T+n settlement, where n>0	18:00
Time limit for specifying final buyer/seller in transactions with settlement on T+n ordered by telephone, where n>0	18:05
Time limit for confirming pre-registration of Selic-to-Clearinghouse migration transactions with T+0/T+n settlement	18:05
Time limit for rejecting transactions with T+n settlement ordered by telephone, where n>0	18:15
Time limit for PLC to accept or refuse reallocation to them of transactions with T+n settlement, where n>0	18:20
Time limit for PNA to accept or refuse reallocation to them of transactions with T+n settlement, where n>0	18:25
Time limit for requesting cancellation of transactions with T+n settlement, where n>0	18:25
End of Clearinghouse activities for the day	18:30

9.2 Fees

Fees for the processes managed by the Clearinghouse are established in Circular Letters issued by BM&FBOVESPA and the amounts owed are available daily to MCs, PLCs or CSTs via queries to the CLF system and, for those with associated MSG, via message BMA0102.

Fees are billed daily to the BL of MC, PLC or CST via LDL0013.

BLs must transfer funds for fee payment via LDL0014 to the Clearinghouse Settlement Account in the STR by 12:00 on the day of billing.

Adoption of a different procedure from the above for billing or payment of fees is communicated in advance by BM&FBOVESPA in Circular Letters.

10. CALCULATION METHODOLOGY

The methodology used by the Clearinghouse to calculate quantities and money amounts for settlement purposes is described in detail in a document issued via BM&FBOVESPA Circular Letters.

This is a free translation offered only as a convenience for English language readers. Any questions arising from the text should be clarified by consulting the original in Portuguese.