

CSDs: CBLC (Brazil)

Date: 22 Oct 2010

SMI Markets: Brazil

CMIRR Markets: Brazil

Government Issues Resolution 3.914 and 3.915

Further to our previous newsflash, the Brazilian government has issued Resolution 3.914, which prohibits foreign investors from borrowing securities for collateral purposes from 21 October 2010.

The borrowed securities, which have already been deposited as collateral prior to 21 October 2010, can be retained until the value date or maturity of the original contract. In the case of borrowed securities without value date or maturity, these will be required to change to other instruments accepted as collateral by 31 December 2010.

On a related note, the government has clarified that according to Resolution 3.915 simultaneous FX transactions will be subjected to a 6% Imposto sobre Operações Financeiras (IOF) tax. This levy will be imposed on any collateral, regardless of whether the funds originated from equity or fixed income instrument accounts.

CSD Risk Impact

CBLC (Brazil)

CSD Rating: AA-

CSD Flash Impact: Negative

Impacted Risk Type: Liquidity Risk

Current Rating = AA

Flash Impact = Negative

Prohibiting foreign investors from using borrowing securities as margin collateral is expected to reduce settlement liquidity. Indeed, investors will have fewer options when trading and in turn, this will mean less settlement activity in the market. This will also undermine participation the Securities borrowing and lending (SBL) market in Brazil.

Market Information Impact

Brazil

This information affects the data contained in the Market Charges and Stock Lending and Repos sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Brazil

Market Rating: A+

Market Flash Impact: Negative

Impacted Risk Type: Liquidity Risk

Current Rating = A

Flash Impact = Negative

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investors will have fewer options when trading and in turn, this will mean less settlement activity in the market. This will also undermine participation the Securities borrowing and lending (SBL) market in Brazil.

Related Flash: [BM&FBOVESPA Stops Accepting Letter of Credit as Collateral Margin, 21/10/2010 \(click to view\)](#)

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