BANCO CENTRAL DO BRASIL

CIRCULAR 3,638, OF MARCH 4, 2013

> Establishes procedures for calculating the component of risk-weighted assets (RWA) relative to equity exposures in the trading book, for which capital requirement is calculated using the standardized approach (RWA_{ACS}), as instituted by Resolution 4,193 of March 1, 2013.

The Board of the Central Bank of Brazil, during an extraordinary session held on March 1, 2013, in connection with art. 9, 10, item IX, and 11, item VII, of Law 4,595 of December 31, 1964, and in arts. 3, paragraph 2, and 15 of Resolution 4,193 of March 1, 2013,

R E S O L V E D:

Art. 1. The calculation of the daily value of the component of risk-weighted assets (RWA) relative to equity exposures for which capital requirement is calculated using the standardised approach (RWA_{ACS}), as instituted by Resolution 4,193 of March 1, 2013, must correspond to the arithmetic sum of the RWA fractions related to each country where the institution presents exposure of this nature.

Sole paragraph. The calculation referred to in the heading applies to the operations in the trading book, as instituted by Resolution 3,464, of June 26, 2007, and is based on the following formula:

$$RWA_{ACS} = \frac{1}{F} \cdot \sum_{j=1}^{n} RWA_{ACS_{[j]}}$$, where:

I - F = factor set forth in art. 4 of Resolution 4,193, of 2013;

II - n = number of countries where the institution conducts operations subject to equity exposure risk;

III - $RWA_{ACS[J]}$ = component relative to equity exposures, in country "j", calculated based on the following formula:

$$RWA_{ACS_{[j]}} = F^{V} \cdot \left| \sum_{i=1}^{n2_{j}} ELA_{i,j} \right| + F_{j}^{VI} \cdot \sum_{i=1}^{n2_{j}} \left| ELA_{i,j} \right| + F_{j}^{VII} \cdot \sum_{k=1}^{n3_{j}} \left| ELI_{k,j} \right|$$

, where:

a) $n2_{j}$ = number of issuers to which the institution is exposed in country "j";

b) $n3_j$ = number of stock indices to which the institution is exposed in country "j";

c) $ELA_{i,j}$ = net exposure in equity of issuer "i" in country "j", under the procedures described in art. 2;

d) $ELI_{k,j}$ = net exposure in contracts referenced to stock indices "k" in country "j", under the procedures described in art. 2;

e) F^V = general risk factor, applicable to the absolute value of the sum of net equity exposures ($ELA_{i,j}$), equals 0.08 (eight hundredths); and

f) F_j^{VI} = specific risk factor for country "j", applicable to the sum of absolute values of net exposures in stocks ($ELA_{i,j}$), equal to 0.08 (eight hundredths).

g) F^{VII} = specific risk fcator for country "j", applicable to the sumof absolute values of net exposures in contracts referenced to stock índices (ELI), equal to 0,02 (two hundredths).

(Inciso III com redação dada, a partir de 1º/1/2014, pela Circular nº 3.677, de 31/10/2013.)

Art. 2. The calculation mentioned in art. 1 applies to equity exposures and derivative financial instruments referenced on them.

Paragraph 1. Exposures to depositary receipts shall be deemed exposures in the equities represented by such receipts, taking the country of origin of such equities for the purpose of the calculation mentioned in the heading.

Paragraph 2. Net equity exposure in stocks and in derivative financial instruments referenced in equity ($ELA_{i,j}$) shall be obtained, for each "i" issuer in certain "j" country, by the absolute value of the sum, in reais, of the market values of all long positions less the absolute value of the sum, in reais, of the market values of all short positions.

Paragraph 3. In the case of options, the representative value of the position shall be obtained by multiplying the market value of the underlying asset by the number of contracts, by its size and by the option's delta, which is defined as the change in the price of the option relative to a change in price of the underlying asset.

Paragraph 4. In the calculation of the net exposure in stocks ELA, the positions referenced in a single stock index must be considered, at the institution's discretion and provided that a consistent treatment is employed, as: (Amended from January 1, 2014 by Circular 3,677 of October 31, 2013.)

I – a position in a single issuer; or

II – positions in the equities of the index, in the proportion of its composition.

Paragraph 5. In the calculation of the net exposure in contracts referenced in stock indices $ELI_{k,j}$, the positions referenced in a same stock index must be considered as a position in a single index. (Included from January 1, 2014 by Circular 3,677 of October 31, 2013.)

Paragraph 6. Values of positions held through quotas of investment funds must be treated consistently based on the proportional composition of their portfolios or, if such treatment is impossible, as a position of a single issuer. (Renumbered from paragraph 5 to paragraph 6 from Jan 1, 2014 by Circular 3,677 of October 31, 2013.)

§ 7º Operations in which the institutions acts solely as a mediator, not assuming any rights or obligations with parties, do not comprise the base for calculation. (Renumbered from paragraph 6 to paragraph 7 from Jan 1, 2014 by Circular 3,677 of October 31, 2013.)

Art. 3. The methodology used to calculate the market value of the equity exposures must be based on consistent and verifiable criteria, in accordance with rules in force.

Sole paragraph. The consolidated calculation of RWA_{ACS} is imputed to the institution in the conglomerate in charge of forwarding accounting information to the Central Bank of Brazil.

Art. 4. A report detailing the calculation of RWA_{ACS} must be forwarded to the Central Bank of Brazil, in accordance with the form to be established.

Sole paragraph. Institutions must keep available to the Central Bank of Brazil, for five years, the data used to calculate the daily value of RWA_{ACS}, as well as the methodology used to calculate the market value of the involved transaction.

Art. 5. This Circular enters into force on October 1, 2013.

Art. 6. As of October 1, 2013, the Circular 3,366 of September 12, 2007 shall be revoked.

Sole paragraph. Citations to Circular 3,366 of 2007, must be replaced with a reference to this Circular.

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