

# CM Capital Manual

Non Resident Investor (NRI)





This document presents a summary of the main aspects that a non-resident investor needs to consider when starting operations in Brazil. The information presented was obtained from B3 guidelines and specific regulations, and must be used for informational purposes.



Detailed information about the processes and legislation must be obtained from the responsible parties (representatives, custodians, brokers).



CM Capital, as a local broker, can assist you with all the processes mentioned in this document.



# Regulatory Environment of Brazilian Capital Markets



## Regulatory Bodies:

### 1 National Monetary Council (CMN)

- Highest regulatory authority in the national financial system.
- Sets inflation targets for the Central Bank.
- Guides monetary, credit, and foreign exchange policies.

### 2 Brazilian Securities and Exchanges Commission (CVM)

- Independent federal agency overseeing nationwide securities markets, excluding government debt markets.
- Regulates, enforces laws, investigates market participants, and applies sanctions.

### 3 Brazilian Central Bank (BACEN)

- Ensures stability of the national currency's purchasing power and the soundness of the financial system.
- Regulates the safety and efficiency of Brazilian payments.

### 4 BSM (Subsidiary of B3 Group)

- Inspects and supervises market participants and B3.
- Conducts disciplinary administrative proceedings.

### 5 B3 (Brazilian Stock Exchange)

- Manages organized securities and derivatives markets.
- Provides registration, clearing, and settlement services.
- Acts as a central counterparty, guaranteeing financial liquidity for trades.



How to start trading in Brazil?





According to Brazilian legislation and regulations, before starting operations, the NRI (Non-Resident Investor) must:

1. Appoint a **Legal and a Tax Representative**.
2. Appoint a **Local Custodian**.
3. Choose CM Capital as their **Local Broker**.
4. Choose a **Carrying Broker** (optional).

- The Local Custodian and the Representatives can be the same institution.

- The NRI can access Brazil through various configurations:
- From the Global Custodian to the Local Custodian.
  - From the Global Intermediary to the Local Intermediary.
  - Directly, by connecting with a Local Broker.



# Legal And Tax Representatives

The legal representative is responsible for registering the NRI with all mandatory regulatory agencies, such as the Securities and Exchange Commission of the Brazil (CVM), the Central Bank of Brazil (BACEN) and the Brazilian Federal Revenue (RFB). Additionally, the legal representative:



Controls capital inflows and outflows on behalf of the NRI.



Provides information to the agencies when needed.



Represents the NRI in court citations and judicial notifications, associated with investments carried out by NRI under the terms of the representation agreement.

The Tax representative is responsible for meeting specific tax obligations arising from the activities conducted by the NRI.



# Local Custodian

The Local Custodian is responsible for carrying out the responsibilities below:

- Ensuring the safekeeping, monitoring, and reconciliation of securities positions within custody accounts held in the name of the final NRI (beneficial owner).
- Processing transaction instructions received from the NRI or authorized individuals as per contractual or delegated mandates (post-trade).
- Managing incidents pertaining to the securities held under custody.
- Maintaining updated NRI identification data (Know Your Customer process).

As already mentioned, the Local Custodian can maintain the relationship:

- Directly with the NRI, or
- With the Global Custodian, who will send instructions to the Local Custodian on behalf of their NRI clients. Usually, in this case, the arrangement occurs through a collective account.



**An NRI can have more than one Local Custodian, resulting in more than one CVM and CNPJ code (one for each custodian).**



# Local Broker = CM Capital

According to regulations, any investor who wants to access B3 will need a local broker, who will be responsible for executing the orders to buy and sell securities.

The Local Broker is responsible for executing orders related to asset trading within regulated markets, according to the NRI instructions:

- Identification of the final beneficial owner in all trading orders.
- Providing clients with details regarding available products and the associated risks they entail.
- Maintaining updated NRI identification data (Know Your Customer process).

As already mentioned, the Local Broker can maintain the relationship:

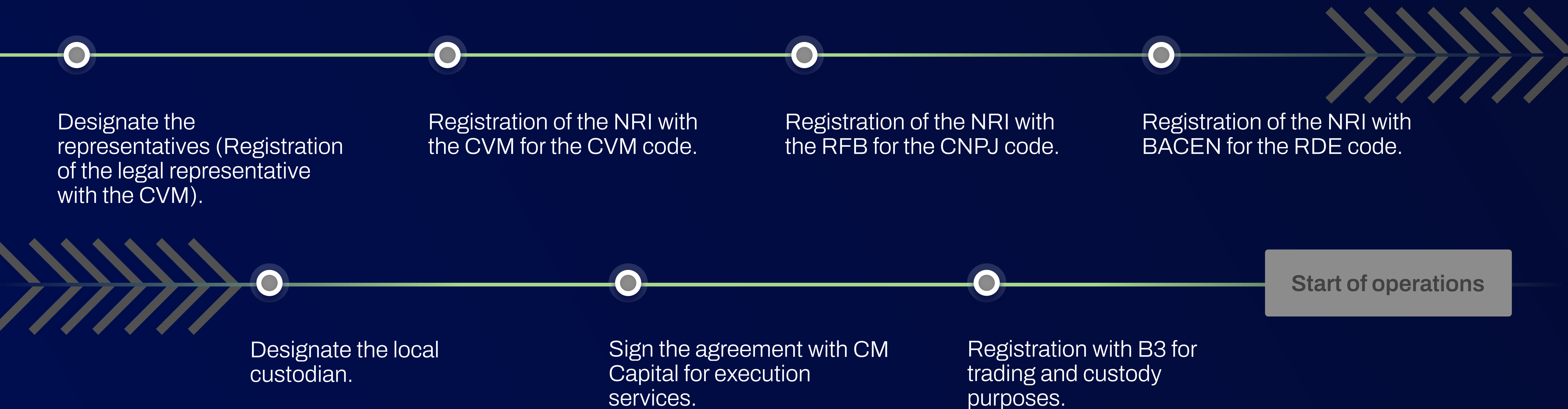
- Directly with the NRI, or
- With the Global Intermediary, who will send instructions to the Local Broker on behalf of their NRI clients.





# Registration Process

The image below summarizes the registration process of the NRI with the regulatory agencies: the Brazilian Securities and Exchange Commission (CVM), the Brazilian Federal Revenue (RFB), the Central Bank (BACEN), and B3 (Brazilian Stock Exchange).



# Operational details



# Types of accounts

The Non-resident investor may operate through the following types of accounts:

1

**Account holder of his/her own account:** The NRI can only trade on its own behalf.

2

**Account holder of a Collective Account\* (similar to an Omnibus account):** The NRI has the authority to conduct trades for themselves and on behalf of other NRIs who are registered under their collective account as beneficiaries.

3

**A passenger of a collective account.**

\*The Omnibus account in Brazil is different from those in North America and Europe. In Brazil, the intermediary is still required to identify the final beneficiary of each executed trade at B3.

# Deposit of collateral

The B3 Clearinghouse employs a combined safeguard structure, blending elements from the Defaulter Pays and Survivor Pays models, prevalent in various international markets.

Under the Defaulter Pays approach, participants are obligated to secure their exposures with collateral, thus covering any resultant losses independently.

In the Survivor Pays model, participants —excluding final investors — contribute to a shared loss-sharing arrangement, aimed at distributing losses incurred by any party according to predetermined guidelines.

In the safeguard structure's initial layer, final investors must provide collateral to secure their open positions, with the minimum amount determined by their portfolio risk, excluding cash market transactions, which are collateralized by the Broker or Settlement participant.

The Broker or Settlement participant can provide collateral on behalf of the final investor, especially in short commitment periods or when individual investors dominate the market with relatively small trades. This practice may be subject to criteria set by B3.

Furthermore, the B3 Clearinghouse requires various participants to provide collateral to mitigate intraday risks associated with their respective positions.



# Deposit of collateral



Collateral deposited in the Clearinghouse must be in cash, which may be substituted by securities/instruments at the exclusive discretion of the B3's Clearinghouse.



The list of acceptable securities can be found on B3's website: [https://www.b3.com.br/en\\_us/products-and-services/clearing-and-settlement/clearing/risk-management/collateral/accepted-collateral/](https://www.b3.com.br/en_us/products-and-services/clearing-and-settlement/clearing/risk-management/collateral/accepted-collateral/).



It is important to note that some securities have deposit limits based on their liquidity. These limits can be reviewed on B3's website: [https://www.b3.com.br/en\\_us/products-and-services/clearing-and-settlement/clearing/risk-management/collateral/limits-for-equities/](https://www.b3.com.br/en_us/products-and-services/clearing-and-settlement/clearing/risk-management/collateral/limits-for-equities/).



For some NRIs, B3's Clearinghouse allows investors to post collateral abroad using B3's accounts with the Depository Trust & Clearing Corporation (DTCC), Euroclear, and other banks. Information about the assets accepted as collateral can be found on B3's website: [https://www.b3.com.br/en\\_us/products-and-services/clearing-and-settlement/clearing/risk-management/collateral/collateral-offshore/](https://www.b3.com.br/en_us/products-and-services/clearing-and-settlement/clearing/risk-management/collateral/collateral-offshore/).

# Risk Monitoring

## Pre-trade risk monitoring

Pre-trade risk monitoring is mandatory for certain market participants on B3, such as those dealing with direct market access (DMA) investors or high-frequency traders.

This model evaluates orders against predefined limits and rejects them if they violate any. The limits are set by B3 for each traded instrument and consider characteristics of the order, previous orders from the same client, and previous trades in the same account.

Market participants can define maximum risk values for each investor profile and apply them in B3's pre-trade risk management system. New orders and modifications are subject to: maximum order size, maximum potential position size in an instrument, and maximum size of a position by equivalent instrument.

## Post-trade risk monitoring

The B3 Clearinghouse assesses the credit exposure of its participants by monitoring intraday risk resulting from their transactions.

Each participant has an intraday risk limit, which can be adjusted by their clearing member. This limit serves as a basis for additional collateral requirements by the Clearinghouse.

The participant's operational balance is affected by this limit, collateral, and transaction risk. Violations occur when the total exceeds the intraday limit and collateral for the operational balance.



# Settlement process

In Brazil, the B3 Clearinghouse handles transaction settlements and acts as a central counterparty, ensuring transaction security.

The settlement process follows the "delivery versus payment" (DVP) principle, where securities are delivered only if payment is made simultaneously.

This principle protects all parties from the risk of the counterparty failing to fulfill its obligations.

transaction  
security

The process involves capturing operations, allocation, and final settlement.

For the settlement of transactions, it is necessary for the local broker to provide information about the parties and accounts involved. Transactions can be settled by the local broker or transferred to another member for settlement.

This process is essential to ensure that trades are correctly allocated to a specific account.

After capturing and allocating transactions, B3 performs multilateral netting, consolidating obligations into net debit or credit positions. Information about these positions is provided on T+2.

# Taxation

The taxation of financial investments in Brazil involves two main types of taxes: income tax (IR) and the tax on credit, insurance, foreign exchange, or securities transactions (IOF).



Income tax for nonresident investors can occur through accrual or capital gains. Tax treatment varies based on the jurisdiction of the investor, with tax havens subject to specific regulations.

Tax havens are defined by Brazilian law as jurisdictions with low tax rates or limited access to ownership information. The list of tax havens is provided by the Brazilian Federal Revenue Service.



The IOF tax, primarily affects Nonresident Investors (NRI) in foreign exchange transactions.

The legislation allows for reducing the IOF rate to zero for certain investments made by NRIs, such as in exchange-traded variable income instruments, publicly offered stocks, equity investment funds, and real estate investment funds.

Additionally, the IOF penalizes extremely short-term investments on Government Bonds, Fixed Income Investment Funds and Bank Deposits, applying to earnings from investments liquidated or matured before 30 days, with the rate decreasing linearly over this period.



# Trading Infrastructure

# Connectivity to B3

To start trading on B3, the NRI must establish a connection with B3 to receive real-time market data and to send orders. This connection can be made using the broker-dealer's desk or through direct market access (DMA) connectivity. The images below describe the different types of DMA connectivity:

## Through the broker's infrastructure



The broker's infrastructure can be located at B3's co-location area or at the broker's own data center.

## Through a vendor's infrastructure



The Vendor's infrastructure can be located at B3's co-location area or at the vendor's datacenter.

## Through the NRI's own infrastructure



The NRI's infrastructure can be located at B3's co-location area or at the NRI's own datacenter.



# Fix Connectivity

In addition to network connectivity, the NRI will need sponsored access to send orders to B3 using the broker's order entry FIX sessions. Drop Copy FIX sessions and Market Data Access can be contracted directly by the NRI from B3.



**Order Entry sessions:** For order entry, management, and trading purposes, these sessions are based on the FIX 4.4 protocol and are available in two encoding formats: Standard FIX and Simple Binary Encoding (SBE).



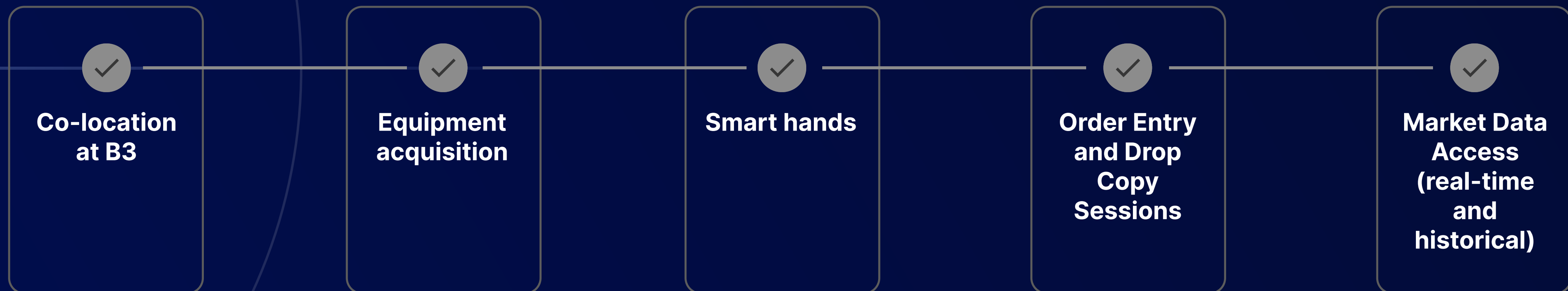
**Market Data Access:** Receiving real-time market data streaming for equity and derivatives segments. B3's Market Data platform is based on Simple Binary Encoding (SBE) combined with FIX protocol standards. The platform also provides a method, based on TCP sessions, for recovering packets that were lost due to the UDP/multicast data transmission.



**Drop Copy sessions:** For confirmation of offers and trades, these sessions are also based on the FIX 4.4 protocol.

# CM Capital Infrastructure Service

We provide a complete infrastructure solution to enable NRIs to start trading at B3, from equipment acquisition to FIX sessions and data solutions.





# B3 Products



# Products that a NRI can trade in Brazil

Nonresident Investors are generally permitted to trade the same products available to domestic investors and can freely move across different types of investments, provided they meet their tax obligations.

US Persons, as Nonresident Investors, can trade specific derivatives contracts listed on the B3 website directly from the United States through a Sponsored Direct Connection (DMA) and must comply with U.S. Commodity Futures Trading Commission (CFTC) regulations and restrictions.

Access the B3 website for the complete list of products available: [https://www.b3.com.br/en\\_us/](https://www.b3.com.br/en_us/)













# Applicable legislation

- **CMN Resolution 4.373/2014** – Regulates the investments of NRIs in the financial and capital markets in Brazil.
- **CVM Resolution 13/2020** – Regulates the registration, operations, and disclosure of information for non-resident investors in Brazil (CVM Code).
- **BACEN Resolution 278/2022** - Regulates foreign capital in Brazil, as well as the provision of information to the Central Bank of Brazil.
- **Normative instruction RFB 2.119/2022** - Regulates the National Registry of Legal Entities (CNPJ Code) with the Federal Revenue of Brazil.
- **Normative instruction RFB 1.585/2015** - Provides for the income tax levied on income and net gains earned in financial and capital markets.
- **Law 8.981/1995** - Tax legislation.
- **CVM Resolution 32/2021** - Regulates the provision of custody services for securities.
- **Law 12.683/2012** – Anti-money laundering law.
- **CVM Resolution 35/2021** - Establishes rules and procedures to be observed in the intermediation of transactions carried out with securities.
- **CVM Resolution 30/2021** - Regulates the duty to verify the suitability of products, services, and operations to the client's profile.
- **CMN Resolution 5.008/2022** - Regulates the establishment, organization, and operation of securities brokerage firms and securities distribution firms.



# Checklist

-  **Sign an NDA with CM**  
To have access to samples of historical market data and all of our materials, including a formal proposal.
-  **Choose your Legal and Tax Representatives**  
Sign the agreements with the representatives and initiate the related legal processes.
-  **Choose your Local Custodian**  
Sign the agreement with the custodian and initiate the processes for opening a custody account.  
\*The representatives and local custodian can be the same institution.
-  **Sign the agreements with CM Capital**  
Sign the brokerage agreement and any related agreements according to the services needed (such as infrastructure and historical data).
-  **Sign the give-up agreement with CM Capital and the carrying broker.**  
Sign this agreement to give up the trades for settlement and custody at the carrying broker.
-  **Certify the trading software with B3.**  
To enter B3's production environment, it is necessary to certify the software for order entry and market data.
-  **Submit a request for the required quantity of sessions at B3.**  
CM Capital will provide the necessary sessions for the NRI to start its operations at B3.
-  **READY TO TRADE!**



**CM Capital Markets CCTVM**

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