

CBLC
Companhia Brasileira
de Liquidação e Custódia



Brazilian Securities Settlement Infrastructure

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(presented by Monique Moura)

Workshop on Developing Government Bonds Markets in Latin America

Rio de Janeiro, June 11-13, 2001

Settlement Systems: International Debate

RTGS (real-time gross settlement)

X

MNS (multilateral deferred net settlement)



TRADE-OFF: RISK REDUCTION VS. COSTS

Gross Settlement Systems - DVP Model 1:

- Implications:
 - Maximum principal risk mitigation
 - Greater liquidity requirements (costs to participants)
- Liquidity management tools (cash):
 - Liquidity support by Central banks
 - Money market transactions
 - Credit lines
- Liquidity management tools (securities):
 - Securities Lending

Net Settlement Systems- DVP Model 3:

- Implications:
 - Reduced liquidity requirements
 - Complex risk management tools
- Risk management tools:
 - Central counterparty by novation
 - Collateral based operational limits and real time monitoring
 - Mark to market
 - Loss sharing agreements (defaulters pay x survivors pay)
 - Securities Lending

Settlement Systems: International Debate

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x

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INTERNATIONAL TRENDS:

- **COMPLEMENTARITY RTGS AND MNS SYSTEMS**
- **MNS SYSTEMS: CENTRAL COUNTERPARTY**

- **Best Practices: market view (G30; ISSA)**
 - Securities Dematerialization
 - Central Securities Depositories (CSDs) covering all instruments



**government bonds, corporate bonds
and equities**

Settlement and Depository Infrastructure

- Different models and institutional arrangements
- Different levels of integration
 - Providers (public and private)
 - Operational
 - Technology

Settlement and Depository Infrastructure: examples

Countries	Central Counterparty	Securities Settlement System	Depository
USA	GSCC	GSCC	Federal Reserve
France	Clearnet	Euroclear (Sicovam)	Euroclear (Sicovam)
Latin America:			
Brazil	CBLC	SELIC (2001) CBLC (2002)	SELIC
Argentina	Argenclear Merval	Argenclear Merval	Caja de Valores

- **Public and private initiatives to develop the secondary market for government bonds**
 - “21 Measures” (Central Bank and National Treasury report)
 - Electronic Trading System - SISBEX (BVRJ)
 - Central counterparty settlement model
- **Central Bank payments system restructuring**
 - RTGS payment facilities
 - Central Bank government bonds settlement system (SELIC) operating in RTGS fashion
 - Private MNS securities settlement system (CBLC) with direct links to Central Bank systems, through settlement accounts

CBLC



Government bonds MNS (Multilateral Net System)
clearinghouse, central counterparty and guarantor



Gradual implementation approach

- Phase 1 - Back-office automation
- Phase 2 - Anonymity throughout settlement process
- Phase 3 - Central counterparty

CBLC settlement model

General characteristics



- CBLC as central counterparty and guarantor
- Novation
- DvP Model 3 - Multilateral netting for both securities and cash legs
- For the cash leg, multilateral netting across instruments - government bonds, corporate bonds and equities
- Direct access to Central Bank RTGS payment system and to SELIC through settlement accounts
- Same day finality in central bank money
- Flexible settlement cycle: T+0 and T+1

CBLC settlement model

Chain of responsibilities



- Participants

- Open structure
- Capital requirements
- Analysis of technical, operational and risk management skills

- Collateralized operational limits

- Mark-to-market

- Securities lending

CBLC risk management model

Hybrid Model

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COLLATERALIZATION

Defaulters Pay

X

MUTUALIZATION

Survivors Pay

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