

Exclusive Memo N° 3298

Ref.: Default Fund Methodology - Complementary Information

Buenos Aires, February 10th 2021

To: Our Member Brokers

We hereby address to you, in compliance with art. 45 of Law N° 26.831, its complementary regulation provided in the National Securities Commission (CNV for its Spanish acronym) Regulations (N.T. 2013, as amended), and BYMA's Default Fund methodology, to provide the complementary information regarding Broker Members liability in respect to Default Fund II during cooling-off periods.

Regarding this, and in accordance with the provisions of Item 6 "Replenishment and additional contributions" and Item 8 "Member's Resignation" of the Methodology, we proceed to make considerations regarding the implemented mechanism for limiting the liability of Broker Members in respect of Default Fund II over cooling-off periods (single and multiple).

- I. Default of a single member during cooling-off period:** the declaration by BYMA of a default of a Member will commence a 20 (twenty) business day "cooling-off period", during which Default Fund II's calculated size will not be re-calculated.
 - a. Cap on additional contributions: is the maximum amount of additional contributions that a non-defaulting Member may be required to make during the cooling-off period, which will not exceed 1 (one) time the value of its contribution to Default Fund II in force at the beginning of the cooling-off period.
 - b. Cap on total Default Fund II liability: the non-defaulting Member's total Default Fund II liability will not exceed 2 (two) times the value of its contribution to Default Fund II in force at the beginning of the cooling-off period.

- c. Member resignation. If the non-defaulting Member submits its membership resignation notice during the cooling-off period, it will not be liable after the end of such period for any additional Default Fund II contributions, in the event that the following conditions are met: has no pending settlement trades or transferred all its positions and has made the corresponding publications by the end of the cooling-off period.

II. Default of more than one member during cooling-off period: the declaration by BYMA of a default of a Member commences a cooling-off period ("**Initial Cooling-off Period**"). Then, if during such period the default of one or more Members is declared, the declaration by BYMA of the default of each Member will commence an additional cooling-off period ("**Concurrent Period**").

After the end of the Initial Cooling-off Period, the first Concurrent Period will be considered as a new Initial Cooling-off Period.

- a. Same Additional Contribution Cap and Total Liability Cap for each Concurrent Period: for purposes of determining the non-defaulting member's Additional Contribution Cap and Total Liability Cap for any Concurrent Period commenced during the Initial Cooling-off period, Default Fund II's calculated size as of the beginning of the Initial Cooling-off Period will be considered.
- b. Determination of additional contributions: the additional contributions made by a non-defaulting Member during the Initial Cooling-off Period will not exceed the Member's Additional Contribution Cap for that period. In the same way, the Member's total liability, in respect of the member's funded amount as of the beginning of the Initial Cooling-off Period plus all additional contributions it is required to make during the Initial Cooling-off Period, will not exceed the Member's Total Liability Cap for that period, regardless of whether such funded amount and additional contributions are used to cover losses resulting from the default of the member that commenced the Initial

Cooling-off Period or losses during the Initial Cooling-off Period resulting from the default of any additional member(s).

Thus, the Member's obligation to make additional contributions to cover losses during the Initial Cooling-off Period resulting from any initial member default and all successive member defaults will be subject to the Additional Contribution Cap for the Initial Cooling-off Period.

- c. Member resignation. If the non-defaulting Member submits its membership resignation notice during the cooling-off period, it will not be liable for any additional Default Fund II contributions, after the end of the last period (Initial or Concurrent) initiated before such resignation, in the event that the following conditions are met: has no pending settlement trades or transferred its positions and has made the corresponding publications.

The following illustrates how the provisions capping a non-defaulting member's Default Fund II liability would operate:

Description of events:

- **Day 1:** BYMA declares M1 default triggering the Initial Cooling-off Period. After applying Default Fund III to cover its losses, BYMA has a loss of 200 million pesos, which it covers by using Default Fund II, leaving a Default Fund II funded amount of 100 million pesos.
- **Day 2:** BYMA declares M2 default triggering Concurrent Period 1. BYMA sustains a loss of 150 million pesos, which it covers with the Default Fund II funded amount of 100 million pesos remaining after Day 1 and requires non-defaulting members to make an additional contribution to Default Fund II of 50 million pesos.
- **Day 3:** BYMA declares M3 default triggering Concurrent Period 2. BYMA sustains a loss of 320 million pesos and requires non-defaulting members to make

additional contributions of 250 million pesos. The remaining 70 million pesos loss is covered by BYMA's equity.

- **Day 20:** Last day of Initial Cooling off Period.
- **Day 21:** Last day of Concurrent Period 1. Default Fund II's calculated size is recalculated and is decreased from 300 to 250 million pesos. However, non-defaulting members are not required to make any additional contributions as they have already reached the cap for additional contributions for Concurrent Period 1, which commenced on Day 2.
- **Day 22:** Last day of Concurrent Period 2. Default Fund II's calculated size is recalculated and is decreased from 250 to 200 million pesos. Non-defaulting members are only required to make additional contributions of 50m (i.e. min (200; 300 - 250)) which represents the unutilized cap for Concurrent Period 2.
- **Day 23:** Default Fund II's calculated size is recalculated and is increased from 200 to 400 million pesos. Non-defaulting members are required to make additional contributions of 350m to bring Default Fund II's funded amount up to the calculated size as all cooling-off periods have concluded.
- Resigning clearing member 1 (RCM-1) resigns on Day 1 and resigning clearing member 2 (RCM-2) submits its resignation notice on Day 2 (resignation in terms of Default Fund is described in Default Fund Methodology).



BYMA

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Timeline (Days)	1	2	3	20	21	22	23
Default event	I	II	III				
DF II calculated size	300	300	300		250	200	400
Loss after Default Fund III usage	200	150	320	End Of CO-1			
DF II usage	200	100	0		0	0	0
Additional Contributions	0	50	250		0	50	350
DF II funded amount (remaining after DF II usage)	100	0	0		0	50	400
Loss allocated to BYMA Capital			70				
Cooling off period (maximum additional contribution)							
CO-1 (300)	0	50	250	-			
CO-2 (300)		50	250	-	-		
CO-3 (300)			250	-	-	50	
Liability end date (LED) of an RCM. Figures in brackets indicate maximum replenishment liability for the RCM							
RCM-1 (300)	Resigns			LED	NOT LIABLE		
RCM-2 (300)		Resigns			LED	NOT LIABLE	

As can be seen from the above illustration, RCM-1 will not have to provide additional contributions after Day 20 and RCM-2 will not have to provide additional contributions after Day 21.

For the purposes of making inquiries about the attached methodology, the Risk Department may be contacted by email at Riesgo@byma.com.ar.

With nothing further at present,

Sincerely Yours,

Gonzalo Pascual Merlo
Gerente de Mercados

Jorge E. De Carli
Gerente General