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EXPLANATORY NOTE TO CVM RESOLUTION Nº 50, OF AUGUST 31, 2021

Ref: CVM Resolution No. 50, of August 31, 2021, which provides for the anti-money laundering, countering the financing of terrorism and countering proliferation weapons of mass destruction financing in the securities market.

INTRODUCTION

This Explanatory Note has the goal of providing more detailed clarifications on the execution of CVM Resolution nº 50, of August 31, 2021, among which the following points stand out:

a) the inclusion of the Risk-Based Approach as the main governance tool for the anti-money laundering, countering the financing of terrorism and countering proliferation weapons of mass destruction financing which results in the following needs for agents regulated to:

(i) create a Policy to anti-money laundering, countering the financing of terrorism and countering proliferation weapons of mass destruction financing;

(ii) periodically prepare an internal risk assessment; and

(iii) reformulate their rules, procedures and internal controls;

b) the improvement of the functions of the officer responsible for the standards, as well as the presentation of duties linked to senior management;

c) the definition of the steps linked to the conduct of the "Know Your Customer" Policy, including the detailing of the routines related to the full knowledge about the beneficial owner; and

d) define in greater detail the warning signs to be monitored and the points that must be part of the analysis of the transaction or atypical situation that was detected, as well as the presentation of the minimum elements that must be part of a report to the Council for Financial Activities Control ("Conselho de Controle de Atividades Financeiras", COAF).

It should be noted that the content of this Explanatory Note is in line with Circular Letters already published by CVM's technical areas, as well as with publications by the FATF and the Basel Committee. Furthermore, it should also be noted that the publication of this Explanatory Note does not restrict or replace the future disclosure of Circular Letters that may become relevant.

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In addition to this brief introduction, the document contains three chapters, namely:

(a) Considerations on the Roles of the Responsible Officer and Senior Management;

(b) Rules, Proceedings, and Internal Controls; and

(c) "Know your Customer" Policy.

CONSIDERATIONS ON THE ROLES OF THE RESPONSIBLE OFFICER AND SENIOR MANAGEMENT

Paragraph 2 of Article 4 of CVM Resolution No. 50, of 2021, establishes that the legal entities mentioned in subsections I and III of art. 3 that belong to the same financial conglomerate must establish in their policies for anti-money laundering, countering the financing of terrorism and countering proliferation weapons of mass destruction financing - AML/CFT/CPF, mechanisms for the exchange of information between their internal control areas. It is worth noting that it is possible to adopt a single policy for the entire conglomerate; in this case, it is important to detail the institutions covered and the respective peculiarities of each one of them.

The purpose of the regulation is to face the risk that failures in communication between the internal control units prevent the fulfillment of the obligations foreseen in the provision, regardless of the adoption or not of a single policy for the conglomerate. Naturally, the exchange of information must consider the relevance of the risk identified in each case, always in line with the respective internal risk assessment, as per Section II of Chapter II of CVM Resolution No. 50, of 2021.

Note that such provision does not conflict with paragraphs 4 and 5 of art. 8, especially when it is clear that keeping one or more directors to perform the duties described in the Resolution will be a choice of the institutions that make up the financial conglomerate.

In any event, it should be emphasized that the director responsible for the Resolution must have broad, unrestricted, and timely access to any information related to the performance of the regulated entity in the capital market, thus enabling the necessary data for the exercise of their duties and their staff, especially concerning effective risk management of money laundering, terrorist financing, and the proliferation of weapons of mass destruction financing (ML/TF/PF), being used effectively and in a timely manner.

Those responsible for the activities of risk management of ML/TF/PF and internal audit, when applicable, must base their analysis on all information they deem relevant, including, where appropriate,

restricted or even confidential information obtained through internal mechanisms that allow such access, as well as information from the hotlines of the whistleblower channel.

Thus, under no circumstances may the legal entities listed in subsection I to III of art. 3 claim any type of restriction of access to any corporate data by the said director, such as - for example - issues arising from a possible confidentiality regime (legal, business, among others), or other legal restrictions, such as events within the scope of the General Data Protection Law or arising from rules that regulate the existence of segregation of activities (Chinese wall) between some areas of the aforementioned institution.

The way in which such data will be made available to the director responsible for the Resolution and their employees must be an integral part of the institution's rules, procedures, and internal controls. Furthermore, the systems responsible for the institution's internal data flow must be guided to avoid the possibility that the routines inherent to the risk management of ML/TF/PF may be harmed by a possible asymmetry of information, due to the untimely receipt of data or even for not receiving any information.

In other words, it is essential to implement adequate internal communication processes, thus enabling the responsible director and their staff to access, without delay, any sensitive information related to risk management of money laundering and terrorism financing.

Be warned that senior management must not only be aware of their duties set out in Section II of Chapter III of the Resolution, but must also ensure that:

a) is timely aware of the compliance risks related to ML/TF/PF;

b) the responsible director has sufficient independence, autonomy, and technical knowledge for the full performance of their duties, as well as full access to all the information he deems necessary for the respective governance of the risks related to ML/TF/PF;

c) the systems responsible for collecting, updating and storing information related to the “Know Your Customer” Policy described in Chapter IV of the Resolution are adequate for the purpose for which they are intended;

d) the systems for monitoring transactions and atypical situations are aligned with the institution's “Risk-Based approach” and can be readily customized in the event of any change in the respective ML/TF/PF risk matrix; and

e) sufficient human and financial resources have been effectively allocated to comply with the points described above.

RULES, PROCEEDINGS, AND INTERNAL CONTROLS

The nature and extent of the rules, procedures and internal controls for AML/CFT will depend on a number of factors, including the scope, scale and complexity of the regulated entity's role in the securities market.

This includes, but is not limited to, the following:

a) the diversity of its transactions;

b) the geographic location;

c) the customer base;

d) the profile of the products and activities offered; and

e) the degree of risk associated with the peculiarities inherent to all lines of business (for example, to what extent there is, or not, a direct relationship with the investor, or business relationship with other people who are part of subsection I to III of art. 3 of the Resolution).

Thus, ML/TF/PF ng risk management must necessarily:

a) prioritize the monitoring of the institution's products and services that are more vulnerable to the risks of money laundering and terrorism financing, customizing, whenever necessary, rules, procedures and internal controls for the specific treatment of an event with the greatest probability of harm;

b) ensure the existence of a regular review process of all assessment and management routines for these risks, taking into account the environment in which the institution operates;

c) verify, before offering new products or services, or even using new technologies, the existence of prior assessments and the respective proposal for adequate controls on the risks of ML/TF/PF;

d) monitor the professional performance of their staff, taking into account the relevance of their attributions for the execution of AML/CFT/CPF; and

e) provide appropriate initial and refresher training for all persons as set forth in subsection II of art. 7 of the Resolution.

"KNOW YOUR CUSTOMER" POLICY

The “Know Your Customer Policy” is one of the main pillars of AML/CFT/CPF and must be understood as the minimum adoption of 4 (four) distinct steps, namely:

a) customer identification;

b) the register;

c) conducting due diligence; and

d) the process of identifying the beneficial owner.

Customer identification comprises the implementation of procedures adequate to the objective of assuring their real identity, given that it is the preliminary moment for the beginning of the investor's relationship with the institution. At the very least, there is a need to certify that the investor has, in fact, an identity document number or respective registration with the CNPJ. In the case of non-resident investors, regardless of the use of the simplified customer records, such information must also include the “CVM code” number.

It should be emphasized that this first contact will not necessarily take place in loco, on the institution's premises. This moment will often be marked by the use of different technologies, so the routines related to this stage must observe, for future risk classification, that the continuity of the relationship with this customer may be conducted remotely.

This is also the moment when the qualification procedures should allow for a first approach in the preliminary collection and validation of some relevant information about this investor, which will probably be necessary for the adequate future monitoring of their transactions.

Therefore, under the terms of paragraph 2 of art. 5 of the Resolution, the attempt to, for example, verify whether the customer is a politically exposed person (PEP) must be subject to disclosure. In the event that the investor is a legal entity, identify whether this investor is controlled by a PEP, or, alternatively, whether it can be classified as a non-profit organization, under the terms of current

legislation. Such information, by itself, does not have any restrictive character, nor is it sufficient to conclude the respective risk classification of that customer.

Subsequently, the process of collecting all customer records information begins, in accordance with Annex B of the Resolution. At the institution's discretion, this process may be carried out through alternative customer records systems, including electronic means, provided that the solutions adopted meet the objectives of the rules in force and the procedures are subject to verification.

For this purpose, institutions that opt for the alternative customer records system must necessarily:

a) meet the essential functions of the customer records process, with evidence that the following have been guaranteed:

(i) customer protection, through the provision of preliminary and basic information that mitigate their informational asymmetry in relation to the contract conditions and the services offered (disclosure);

(ii) compliance with legal and regulatory rules, especially those relating to AML/CFT/CPF, processes for adapting products to the investor's profile (suitability) and fighting the use of privileged information (insider trading); and

(iii) the management of other risks inherent to the performance of this institution in the securities market;

b) increase the safety and reliability of customer records data by consulting official sources for validating information;

c) ensure that all changes and updates within the customer records are traceable and auditable;

d) mitigate the risk of false or inaccurate information in the customer records process; and

e) implement a permanent process for collecting and updating customer records data and allowing access to such information without delay.

It should be noted that, in any case, the information will be declared by the customer, and must then go through a validation process by the institution, through public or private databases of recognized reliability, and such consultation may be carried out in both environments.

Thus, any discrepancies that may be pointed out during the process of analysis and validation of the customer records data provided must be resolved with the customers and dealt with by the respective

areas and hierarchical instances responsible for approving and maintaining the relationship with customers.

It should be noted that, regardless of the existence or not of divergences in the customer records bases, the institution must always be proactive and guide such routines in accordance with subsection II and III of art. 4, of paragraphs 1 and 3 of art. 11, and subsection I of art. 17.

In order to achieve the previously emphasized precepts, institutions that opt for the alternative customer records system must observe:

a) the maintenance of the content, date, time, origin and identification of the person responsible for providing and updating all customer records information carried out within a period of at least 5 (five) years;

b) the system's ability to retroact to an earlier date, for a minimum period of 5 (five) years, in order to show the data contained in the customer records in force on that date;

c) security controls and procedures that allow blocking access to customer records data by unauthorized persons, as well as the identification of users who had access or made changes to customer records data within a period of at least five years;

d) mechanisms for warning of expiration and blocking for new transactions to be carried out by customers with outdated customer records, except in the event of requests for account closure or for the sale or redemption of assets, always in compliance with the terms of paragraph 3 of art. 11, as well as articles 16 to 18 of the Resolution; and

e) description of the analytical procedures and approval processes that demonstrate the additional steps required to:

(i) confirm the customer records information of its customers, keep it updated and monitor the transactions carried out by them, in order to avoid the use of the account by third parties and identify the beneficial owners of the transactions;

(ii) identify people considered politically exposed, as well as non-profit organizations; and

(iii) try, within the scope of the institution’s duties, to identify the origin of the resources involved in the transactions of customers and beneficiaries identified as politically exposed persons.

It is worth reiterating here that the customer's signature or his proxy in the customer records can be done by digital means, which links the digital certificate to the electronic document being signed, in this case, the registration form, or, in the case of electronic systems, by which the customer records data is entered directly by the investor, the future customer, supplied by other mechanisms, provided that the procedures adopted allow the customer's identification to be precisely confirmed.

Once the customer records information collection phase is completed, the continuous conduct of investigations begins, which will be in force throughout the entire business relationship with the customer, aiming at:

a) reinforcing the verification of the veracity of the information collected;

b) collecting supplementary information, when applicable; as well as

c) keeping them updated, in the event of detection of a new fact that justifies the anticipation of the deadline established by the institution for the customer records update.

In carrying out these ongoing investigations, efforts must be made to seek additional information with a view to the proper classification and management of the ML/TF/PF risks of this customer. The search for additional data must initially comprise all areas of the institution, as well as other information that may be available in other entities that may be part of the same financial conglomerate, pursuant to paragraph 2 of art. 4 of the Resolution.

Nevertheless, the institution must, within the scope of its methodology for approaching risk, permanently assess how additional information will be obtained from third parties outside the financial conglomerate, if applicable, observing any secrecy or restriction of access as set forth in the law.

It should be clarified that, as defined in the Resolution, the ultimate beneficiary is a natural person or persons who, alone or together, own, control or significantly influence, directly or indirectly, a customer on whose behalf a transaction is being conducted or benefit from it.

Thus, when conducting the process of identification of the beneficial owner, the minimum reference value must be noted, which was defined at 25% (twenty-five percent) of the share capital of legal entities or of the net equity of funds of investment and other entities in the cases set forth in subsections II to V of art. 1 of Annex B, without prejudice to the eventual use of the simplified customer records set forth in

Annex C. Such parameter must be aligned with the results of the internal risk assessment and may be lower than this percentage in situations of greater risk.

Furthermore, it should be noted that the process of identifying one or more beneficial owners goes beyond the parameters defined in the concepts of control or ownership. Occasionally, the causal link of this identification should focus on the act or effect of significant influence, as to what may exist one or more people who actually participate in that investor's strategic decision-making, and who will not necessarily, for example, make up the framework company, nor will they be listed as its managers or even employees.

Another point to be verified is that, in many situations, in legal entities, or even in legal arrangements of non-resident investors, the beneficial owner will only be the one who ultimately benefits directly or indirectly from the assets owned by that customer, without there necessarily being any formal record that he or she is part of the shareholders' board or even the board of directors or employees.

All of the foregoing reinforces the need to permanently conduct investigations aiming at the customer's full knowledge, including the understanding of its legal nature and its decision-making process, in a risk-based approach, and within the scope of the institution's duties.

As regards the simplified customer records of non-resident investors, as set forth

in Annex C of the Resolution, it will initially be up to the legal entities mentioned in subsections I to III of art. 3 of the norm to identify the correct classification for the referred foreign investor. Sequentially, the steps must guide situations in which the individualization of a natural person or persons as the beneficial owners of these investors is possible, and the best efforts to identify them must be evidenced.

The adoption of the simplified customer records for non-resident investors allows the Brazilian institution to hold a reduced amount of customer records information, however it does not exempt it from carrying out the routines as set forth in the investor knowledge process, which have already been mentioned in this Explanatory Note. Such routines must be carried out on a permanent basis during the business relationship between the Brazilian institution and the non-resident investor, and do not require prior demand from the CVM or the self-regulatory entity to be implemented.

Although the foreign institution can be considered as the main source of information to be collected, if the data required by CVM rules are not really made available by the foreign institution that holds the

non-resident customer information for the Brazilian institution, there is no restriction that supplementary inputs are obtained from third parties.

Therefore, occasionally, other information can be collected from independent sources, and be effectively used, as long as they prove to be useful and reliable as substitutes or good references for the "Know Your Customer" process.

In this context, if the necessary information is not provided by the foreign institution, or even cannot be obtained from reliable third parties, and such gap prevents the full knowledge of the customer classified as a non-resident investor, the Brazilian institution must adopt the necessary measures to, considering all the hypotheses foreseen in the subsections of art. 20 of the Resolution, after analyzing the specific situation pursuant to art. 21, assess the relevance and opportunity of communicating the facts to COAF.

In addition, other measures must also be adopted, such as the assessment of the respective senior management on the maintenance of the business relationship with that non-resident investor.

It should be emphasized that the lack of knowledge of the beneficial owner, in situations where applicable, of any Brazilian or foreign customer, resident or non-resident, regardless of the use of the simplified customer records, must always be based on evidence that due diligence has been carried out aiming at this end, within the scope of the institution's duties.

The institution must observe that not knowing the beneficial owner is not, in itself, a sufficient element for sending a report to COAF. As a result, this fact must provide for a more rigorous continuous monitoring, aiming at the detection of other transactions or atypical situations, pursuant to art. 20 of the Resolution, regardless of the risk rating of that investor.

Finally, in the event that additional atypicalities are detected, the institution must conduct deeper analysis, with a view to verifying the need for the reports foreseen in arts. 22 and 27, always paying attention to the minimum parameters that must be included in a report to COAF, as set forth for in paragraph 1 of art. 22.

Signed electronically by

MARCELO BARBOSA
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