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Market Structure

Lend, borrow, grow: Improving Brazil's SBL market

While Brazil's securities borrowing and lending framework has its strengths, it still trails global peers. In this paper, we propose steps to modernize the country's SBL system, without compromising safety.

Market-making, hedging and short-selling all work more effectively when they're underpinned by an efficient securities lending system. In fact, the ability of investors and traders to seamlessly borrow and lend securities is arguably a key factor separating leading financial markets from those that are still evolving. For this reason, it's increasingly important for burgeoning markets like Brazil to adopt a modern and robust securities borrowing and lending (SBL) framework.

Read more: [How securities borrowing and lending \(SBL\) works](#)

While Brazil's SBL system does have its strengths, it still trails global peers, not only in depth, but in accessibility and in overall operational sophistication. In this paper, we examine Brazil's specific challenges – including an imbalance between supply and demand, a lack of transparency and a stubbornly manual process – and propose steps to modernize the country's SBL framework, without compromising safety.

Strengths and shortcomings

The Banco de Títulos CBLC (BTC) system, operated by Brazil's B3 exchange, is a clear strength. BTC provides a secure and centralised infrastructure for securities lending, acting as a clearing house that eliminates bilateral counterparty risk. In addition to its BTC system, Brazil's SBL market has one other notable strength: EFPCs – a specific type of closed pension fund – are mandated to lend a portion of their portfolios, which provides a baseline supply that is reliable and stable.

However, the SBL market structure is hobbled by several shortcomings. The first is a persistent structural supply-demand imbalance. Free float – the amount of outstanding shares available for public trading in a company – is often lower in Brazil relative to developed markets due to dominant ownership by families or state-related entities. Free float percentages frequently dip below 50%, and in some cases under 30%. This naturally constrains the supply of shares available for SBL. For comparison, in the US, free float percentages often hover above 70%.

Beyond free float limitations, other structural barriers weigh on the supply side. Retail investors are underrepresented in the SBL ecosystem, due to a mix of low incentives, operational opacity and the need to actively opt in. Institutional asset managers face a different, but related, set of hurdles such as regulatory complexity, reputational risks tied to lending mishaps during corporate actions, and divergent tax treatments. On top of this, corporate events often trigger recalls, driven by internal policy or tax considerations, causing temporary dislocations in supply.

Meanwhile, a significant share of the Brazilian equities free float – commonly cited as around 40% – is held by a range of non-resident investors. Among these are US funds that are restricted from lending due to regulatory constraints. These restrictions often relate to collateral management and principal risk requirements, which the current BTC model does not accommodate.

Apart from supply, another major deficiency is the lack of transparency. Borrowers and lenders must rely on bilateral dealer quotes and broker relationships due to a lack of real-time borrow rate data or consolidated availability metrics. This places smaller or less connected market participants at a disadvantage. Finally, borrowing and lending remains highly manual, slowing down execution and reducing scalability.

These challenges can make borrowing in Brazil both expensive and operationally burdensome, particularly in mid- and small-cap stocks or around corporate events. This can dissuade global players from participating in the Brazilian market.

Fixing the plumbing

We see three incremental reforms, each worth exploring further, that could significantly improve Brazil's SBL market:

- Greater transparency
 - Adoption and further development of a public dashboard showing borrow availability, indicative rates and lending volumes, either maintained by the exchange or a neutral third party
 - Encouraging intermediaries to share lending data to enhance price discovery
 - Post-trade reporting obligations that would allow rates to adjust more dynamically in response to market conditions
- Expanding the base of potential lenders
 - Offering a non-CCP route, allowing bilateral collateral management for non-resident investors (already contained in a pending proposal), which would enable participation from US funds that are currently locked out due to regulatory limitations
 - Establishing a strong regulatory framework and building retail understanding around SBL to help more individual investors feel confident opting in. Over time, these foundations may support broader participation models
- Strengthening regulatory safeguards around corporate events
 - Introducing locate or pre-borrow requirements to prevent over-shorting and mitigate fail-to-deliver risks
 - Adopting temporary pricing guidelines that could provide further stability during sensitive periods

Finally, we believe establishing cross-functional working groups with B3, CVM, custodians, asset managers and global investors could help diagnose recurring inefficiencies – such as squeezes – and support the development of a credible roadmap for modernising Brazil's SBL infrastructure.

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