

June 10, 2019
019/2019-VOP

C I R C U L A R L E T T E R

To: B3's Market Participants and Other Stakeholders – BM&FBOVESPA Segment

Re: **Approval and Implementation of New Retail Liquidity Provider (RLP) Orders and New Rules for Registration of Cross Orders in PUMA Trading System.**

On December 19, 2018, B3 S.A. – Brasil, Bolsa, Balcão (B3) issued Circular Letter 050/2018–VOP announcing a public consultation on a proposal to change the rule for registration of cross orders in the exchange environment, and inviting appreciation and comments by its participants and other stakeholders.

The proposal included (i) a change to the rule now in effect for the registration of cross orders in exchange markets in order to unify the rules for the BM&F and Bovespa segments of the PUMA Trading System; and (ii) the creation of a new type of order called Retail Liquidity Provider (RLP).

The time limit for the submission of comments and suggestions on the proposal offered for public consultation was February 20, 2019. On April 9, 2019, B3 published a Report on the Public Consultation, available from B3's portal at www.b3.com.br, Regulation, Public Consultation, RLP and New Rule for Registration of Cross Orders. The report covers all comments and suggestions submitted by market participants and other stakeholders for which confidential treatment was not expressly required, as well as B3's view on each of the topics involved.

The rules on the topics discussed in the public consultation and approved by the Securities & Exchange Commission of Brazil (CVM) on May 21, 2019 and May 28, 2019, are set out below. The following rules are expected to take effect as of August 5, 2019.

1. Functioning of the new type of order called Retail Liquidity Provider (RLP)

The RLP is a new order type in the PUMA Trading System, with the following aims:

- a)** To enable intermediaries or investors authorized by them to supply liquidity for part of the flow of aggressing orders from retail customers;
- b)** To assure compliance with best execution principles;
- c)** To preserve the adequate functioning of the price formation process.

RLPs therefore have the following characteristics:

- a)** They will trade solely within the PUMA Trading System.
- b)** They can be aggressed only by orders from customers of the same intermediary who are flagged with a retail ID.
- c)** They are market-pegged orders: the intermediary indicates the buy and/or sell quantity, and the order price is automatically adjusted by PUMA to the best bid or best ask on a continuous basis.
- d)** When the bid/ask spread is 1 tick, buy RLPs are registered as bids and sell RLPs as asks; when the bid/ask spread is 2 ticks or more, the RLP price may be improved by at least 1 tick at the intermediary's discretion.
- e)** RLPs can be only be registered with same-day validity.
- f)** Retail customers can only be limit orders or market orders.
- g)** Considering (i) the top price level of the central order book at a given time, (ii) the presence in the book of an RLP from an intermediary, and (iii) the arrival of an aggressing order from a retail customer of the same intermediary:

- I.** RLPs have priority over all orders from other intermediaries;

- II. RLPs do not have priority over orders from customers of the same intermediary that can be matched with the aggressing order. Thus if there is an order in the central order book from another customer of the same intermediary that can be matched with the aggressing order, the aggressing order is sent to the central order book and matched with all orders from all intermediaries down to the last matchable order from a customer of the same intermediary. If any orders are left over, the aggressing order is sent to the RLP book;
- III. In all cases, if there are orders left over after execution of an RLP, they are redirected to the central order book.
- h)** B3 may refrain from applying this last provision (g II) if a customer (i) expressly instructs the brokerage house concerned to this effect, and (ii) appropriately marks orders sent to the trading platform.
- i)** The number of contracts traded via RLPs must not exceed 15% (Y) of the total volume of the instrument. Calculation of “total volume” and “number of contracts traded via RLPs” excludes contracts traded by participants on their own account via RLPs and includes contracts traded by customers of participants via RLPs. Given the above rule and considering that RLPs are for retail customers only, each brokerage house may submit at most Y/X of its retail volume as RLPs, where X is the market share of retail customers in the instrument considering the market as a whole:
- Percentage Y may be changed by B3 depending on market conditions, with participants being notified in advance.
 - Percentage X will be updated every month and calculated as the daily average market share of retail customers in the previous month.

Thus the average computed for month t will be the parameter to be observed as the cap for month t+1. The purpose of this cap is to ensure that a significant proportion of the retail flow originated by brokerage houses interacts with

019/2019-VOP

other investors, contributing to an increase in liquidity and a reduction in spreads.

Example

| Item | Calculation |
|---|--|
| Total volume of instrument (buys and sells) | 14,950,000 contracts |
| Contracts traded (bought and sold) by all participants on their own account via RLPs | 1,950,000 contracts (buys and sells) Buys: 975,000 contracts Sells: 975,000 contracts |
| Total volume of instrument (excluding contracts traded by participants on their own account via RLPs) | $14,950,000 - 1,950,000 =$ 13,000,000 contracts |
| Cap (Y) => 15% | $13,000,000 * 15% =$ 1,950,000 contracts |
| Market share of retail customers considering entire market (X) | 46% |
| Limit per intermediary for use of RLPs (Y/X) | $15% / 46% =$ 32% |

| Intermediary | Retail customer volume | Limit for use of RLPs |
|--------------|------------------------|--|
| A | 3,125,000 | $3,125,000 \times 32% =$ 1,000,000 contracts (buys and sells) |
| B | 1,875,000 | $1,875,000 \times 32% =$ 600,000 contracts (buys and sells) |
| C | 1,093,750 | $1,093,750 \times 32% =$ 350,000 contracts (buys and sells) |

- j) Because no market orders can aggress them, RLPs cannot have pre-trade transparency but are disclosed via the market data feed immediately after the close of trading.
- k) Through PUMA Trading System, intermediaries A1, A2, ..., An may allow intermediary B to act as counterparty for the purpose of “consolidating” the respective flows of aggressing retail orders in compliance with all other

conditions. Brokerage houses A1, A2, ..., An may stipulate a fee to be paid by intermediary B.

- l) Through PUMA Trading System, an intermediary may allow a customer to act as counterparty to its flow of aggressing retail orders in compliance with all other conditions. The intermediary may stipulate a fee to be paid by the customer.
- m) Initially, RLPs are to be used only for Mini US Dollar Futures (WDO) and Mini Ibovespa Futures (WIN). In future, B3 may review the list of authorized products based on its assessment of the results of the new functionality.

The Annex presents detailed examples of the workings of RLP orders.

2. Obligations of brokerage houses that use RLP orders

Brokerage houses that wish to use RLP orders must:

- a) Register the account number (one per derivative) to be used for RLPs with B3's Trading Platform unit;
- b) Assure transparency for their customers in the use of RLPs and provide the means for customers to opt-in and opt-out of participating as aggressors of RLP orders;
- c) Take steps to ensure that orders from retail customers are not artificially held back but are sent directly to PUMA Trading System;
- d) Make sure all individual customers are able to be aggressors of RLP orders;
- e) Publish monthly reports on their websites containing at least the following information:
 - i. The volume traded by the brokerage house using RLP orders;
 - ii. Products for which the brokerage house allows RLP orders to be used, both in own-account trading and by customers;
 - iii. The percentage of the customer base using RLPs;

- iv. The number of customers who received benefits of any kind by using RLPs (better price or quantity);
- v. The number of contracts and retail customer orders executed against RLPs;
- vi. The number of orders improved;
- vii. The number of contracts improved.

Each monthly report must remain available for at least six months.

To contribute to transparency, B3 will publish on its portal risk metrics associated with regular and day trades, including the probability of losses in day trades involving mini contracts, among other items. The websites of brokerage houses that republish the above information and the opt-in mechanisms they use must contain a link to this content on B3's portal.

3. Instruments available for use of RLPs

Initially, B3 will allow RLP orders to be used only for Mini Ibovespa Futures (WIN) and Mini US Dollar Futures (WDO).

B3, BSM and CVM will analyze liquidity metrics for the contracts eligible for trading via RLPs.

After a period of 12 months starting on the date of the product launch, B3 will evaluate the RLP experience to decide whether any adjustments need to be made. B3 may exceptionally make adjustments to the RLP before the end of the 12-month period, in which case it will inform the market.

The following metrics will be used to evaluate the performance of Mini Ibovespa Futures (WIN) and Mini US Dollar Futures (WDO):

- i. Average spread;
- ii. Liquidity at the top price level;

- iii. Liquidity growth considering the numbers of trades, investors and contracts;
- iv. The average time during which brokerage houses traded via RLPs;
- v. The average life of investors in products with RLPs;
- vi. The percentage of customers who ceased trading;
- vii. The percentage of customers migrating or trading in other markets;
- viii. The percentage of customers reporting losses in the previous semiannual period;
- ix. RLP trading as a share of total trading hours;
- x. The median daily result in day trading for investors reporting losses on products with RLP functionality;
- xi. The median daily result in day trading for investors reporting gains on products with RLP functionality;
- xii. Intermediaries' returns on RLP trading.

4. Rule on cross order registration

In this context the rule on cross orders is now as follows:

- a)** Registration of cross orders is allowed if they are priced above the best bid and below the best ask, i.e. between the bid and ask, respecting the tick size for each security or derivative.
- b)** Cross orders may be registered at the best bid or at the best ask only in the following cases:

- i. Orders of a size disproportional to the liquidity of the security or derivative, according to parameters to be issued by B3 from time to time;
- ii. Orders of a size disproportional to the liquidity of the security or derivative for execution at the average price for the day, generated by TWAP (time-weighted average price) or VWAP (volume-weighted average price) algorithms, according to parameters to be issued by B3 from time to time;
- iii. Orders relating to structured transactions that involve several contracts and/or securities and coordinated execution, to assure the quantities and prices agreed by the parties;
- iv. Orders designed to correct operational errors by a participant.

c) Registration of cross orders will not be allowed in any other circumstances.

After discussion with the Advisory Committee on Operations, B3 will issue a Circular Letter approved by CVM with the parameters for orders of a size disproportional to the liquidity of the security or derivative for the purposes specified in this item (item 4).

5. Consequence of exceeding the limits for trades via RLPs

Brokerage houses that exceed the maximum limit for contracts traded via RLPs in any month will be subject in the immediately subsequent month to an adjusted cap to compensate for the excess. If the excess is greater than the cap, compensation will proceed in the ensuing months until the total excess is offset, potentially preventing the use of RLPs for one or more months.

Definitions of all order types can be found in B3's Trading Procedures Manual and Trading Rulebook, available at http://www.b3.com.br/en_us/, Regulation, Regulatory framework, Regulations and manuals, Trading.

019/2019-VOP

Further information can be obtained from the Electronic Trading Department by email at negociacao@b3.com.br or by telephone on +55 11 2565-5020.

Cícero Augusto Vieira Neto
Chief Operating Officer

José Ribeiro de Andrade
Chief Product and Client Officer

Annex to Circular Letter 019/2019-VOP

Retail Liquidity Provider (RLP) Functionality Scenarios

General considerations on scenarios 1-7:

- The order book spread is closed and tick size for the instrument is equivalent to five (5) points.
- Pegged prices of hidden buy and sell orders (RLPs) are 74,995 and 75,000 respectively.
- Given that a customer of brokerage house A is submitting a retail order, the hidden order (RLP) from brokerage house B is inactive and therefore cannot be executed.

Scenario 1: closed spread without order from brokerage house’s customer on order book

- A retail customer of brokerage house A sends the trading platform a bid for 10 at a limit price of 75,000.
- A hidden ask (RLP) from brokerage house A is active and can be aggressed by retail bids from the same brokerage house since there are no visible asks from customers of brokerage house A at the top price level of the order book.

| | | BID | | ASK | | | |
|---------|--|--------|------|--------|--------|------|--------|
| | | Broker | Qty | Price | Price | Qty | Broker |
| Hidden | | RLP A | 1000 | Pegged | Pegged | 1000 | RLP A |
| | | RLP B | 1000 | Pegged | – | – | – |
| Visible | | C | 5 | 74,995 | 75,000 | 20 | D |
| | | D | 10 | 74,990 | 75,005 | 10 | F |
| | | E | 5 | 74,985 | 75,010 | 5 | G |

- A bid from a retail customer of brokerage house A for 10@75,000 aggresses a hidden ask (RLP) from brokerage house A.
- The trade is published in the market data feed.

| Trade | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| A | RLP A | 10 | 75,000 |

- Resulting book: balance of 990 quantities in the RLP from brokerage house A.

| BID | | | ASK | | |
|------------|------|--------|--------|-----|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 990 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,000 | 20 | D |
| D | 10 | 74,990 | 75,005 | 10 | F |
| E | 5 | 74,985 | 75,010 | 5 | G |

Scenario 2: closed spread with order from brokerage house’s customer at top price level of order book

- A retail customer of brokerage house A sends the trading platform a bid for 10 at a limit price of 75,000.
- A hidden ask (RLP) from brokerage house A is inactive and cannot be aggressed by retail bids from the same brokerage house since there is a visible ask from a customer of brokerage house A at the top price level of the order book and this ask matches the total quantity of the RLP.

| BID | | | ASK | | |
|------------|------|--------|--------|------|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 1000 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,000 | 10 | A |
| D | 10 | 74,990 | 75,005 | 10 | F |
| E | 5 | 74,985 | 75,010 | 5 | G |

019/2019-VOP

- A bid from a retail customer of brokerage house A for 10@75,000 aggresses a visible ask from a customer of brokerage house A at the top price level of the order book.
- The trade is published in the market data feed.

| Trade | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| A | A | 10 | 75,000 |

- Resulting book: hidden ask (RLP) from brokerage house A is altered to active since there are no longer any visible asks from customers of brokerage A at the top price level of the order book.

| BID | | | ASK | | |
|------------|------|--------|--------|------|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 1000 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,005 | 10 | F |
| D | 10 | 74,990 | 75,010 | 5 | G |
| E | 5 | 74,985 | | | |

Scenario 3: closed spread with order from brokerage house's customer at top price level of order book (alternative scenario)

- A retail customer of brokerage house A sends the trading platform a bid for 10 at a limit price of 75,000.
- A hidden ask (RLP) from brokerage house A is inactive and cannot be aggressed by retail bids from the same brokerage house since there is a visible ask from a customer of brokerage house A at the top price level of the order book, and the total quantity of visible orders at the top price level of the order book matches the quantity of the RLP.

| BID | | | ASK | | |
|------------|------|--------|--------|------|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 1000 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,000 | 5 | F |
| D | 10 | 74,990 | 75,000 | 5 | A |
| E | 5 | 74,985 | 75,010 | 5 | G |

- A bid from a retail customer of brokerage house A for 10@75,000 aggresses an ask from a customer of brokerage house F and then aggresses an ask from a customer of brokerage house A at the second price level of the order book.
- The trade is published in the market data feed.

| Trades | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| A | F | 5 | 75,000 |
| A | A | 5 | 75,000 |

- Resulting book:

| BID | | | ASK | | |
|------------|------|--------|--------|------|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 1000 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,010 | 5 | G |
| D | 10 | 74,990 | | | |
| E | 5 | 74,985 | | | |

Scenario 4: closed spread with order from brokerage house’s customer at top price level of order book and RLP for higher quantity than quantity available at top price level

- A retail customer of brokerage house A sends the trading platform a bid for 15 at a limit price of 75,000.

| | | BID | | ASK | | |
|---------|------------|-------|--------|--------|--------|-------------|
| Hidden | Buy broker | Qty | Price | Price | Qty | Sell broker |
| | | RLP A | 1000 | Pegged | Pegged | 1000 |
| | RLP B | 1000 | Pegged | – | – | – |
| Visible | C | 5 | 74,995 | 75,000 | 10 | A |
| | D | 10 | 74,990 | 75,005 | 10 | F |
| | E | 5 | 74,985 | 75,010 | 5 | G |

- A bid from a retail customer of brokerage house A for 15@75,000 aggresses a hidden order (RLP) from brokerage house A.
- The trades are published in the market data feed.

| Trades | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| A | A | 10 | 75,000 |
| A | RLP | 5 | 75,000 |

- Resulting book: balance of 995 quantities in the hidden order (RLP) from brokerage house A.

| | | BID | | ASK | | |
|------------|------|--------|--------|-----|-------------|--|
| Buy broker | Qty | Price | Price | Qty | Sell broker | |
| RLP A | 1000 | Pegged | Pegged | 985 | RLP A | |
| RLP B | 1000 | Pegged | – | – | – | |
| C | 5 | 74,995 | 75,000 | 10 | F | |
| D | 10 | 74,990 | 75,010 | 5 | G | |
| E | 5 | 74,985 | | | | |

Scenario 5: closed spread without orders from brokerage house customers in order book – order from retail customer matched partially by hidden order (RLP) and balance matched by visible order

- A retail customer of brokerage house A sends the trading platform a bid for 15 at a limit price of 75,000.

019/2019-VOP

- A hidden ask (RLP) from brokerage house A is active and can be aggressed by retail bids from the same brokerage house since there are no visible asks from customers of brokerage house A at the top price level of the order book.

| BID | | | ASK | | |
|------------|------|--------|--------|-----|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 10 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,000 | 5 | D |
| D | 10 | 74,990 | 75,005 | 10 | F |
| E | 5 | 74,985 | 75,010 | 5 | G |

- A bid from a retail customer of brokerage house A for 15@75,000 aggresses a hidden order (RLP) from brokerage house A and the balance of 5 quantities is routed for matching with visible orders.
- The balance is matched with a visible ask brokerage house D available at the top price level of the order book.
- The trades are published in the market data feed.

| Trades | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| A | RLP A | 10 | 75,000 |
| A | D | 5 | 75,000 |

- Resulting book: no hidden asks (RLPs).

| BID | | | ASK | | |
|------------|------|--------|--------|-----|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | – | – | – |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,005 | 10 | F |
| D | 10 | 74,990 | 75,010 | 5 | G |
| E | 5 | 74,985 | | | |

Scenario 6: closed spread without orders from brokerage house customers in order book – order from retail customer matched partially and balance routed to order book

- A retail customer of brokerage house A sends the trading platform a bid for 20 at a limit price of 75,000.
- A hidden ask (RLP) from brokerage house A is active and can be aggressed by retail orders from the same brokerage house since there are no visible asks from customers of brokerage house A at the top price level of the order book.

| BID | | | ASK | | |
|------------|------|--------|--------|-----|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 10 | RLP A |
| RLP B | 1000 | Pegged | – | – | – |
| C | 5 | 74,995 | 75,000 | 5 | D |
| D | 10 | 74,990 | 75,005 | 10 | F |
| E | 5 | 74,985 | 75,010 | 5 | G |

- A bid from a retail customer of brokerage house A for 20@75,000 aggresses a hidden order (RLP) from brokerage house A.
- The balance of the retail order, 10 quantities, is matched partially by a visible ask from brokerage house D available at the top price level of the order book.
- The trades are published in the market data feed.

| Trades | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| A | RLP A | 10 | 75,000 |
| A | D | 5 | 75,000 |

- Resulting book: balance of ask from customer of brokerage house A goes to the order book, causing “inactivation” of hidden order (RLP) from brokerage house A.

| BID | | | ASK | | |
|------------|------|--------|--------|-----|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RPL A | 1000 | Pegged | – | – | – |
| RPL B | 1000 | Pegged | – | – | – |
| A | 5 | 75,000 | 75,005 | 10 | F |
| C | 5 | 74,995 | 75,010 | 5 | G |
| D | 10 | 74,990 | | | |
| E | 5 | 74,985 | | | |

Scenario 7: open spread with order from brokerage house customer in order book

- The order book spread is open and tick size for the instrument is equivalent to five (5) points.
- The pegged price of the hidden bid (RPL) is 75,005 (best visible bid plus 1 tick). The pegged price of the hidden ask (RPL) is also 75,005 (best visible ask minus 1 tick).
- A retail customer of brokerage house B sends the trading platform a bid for 10 at a limit price of 75,010.
- A hidden ask (RPL) from brokerage house B is active and can be aggressed by retail orders from the same brokerage house in light of the open spread, meaning these orders always lead to price improvement for retail investors.
- Given that a customer of brokerage house B is submitting a retail order, the hidden order (RPL) from brokerage house A is considered inactive.

| BID | | | ASK | | |
|------------|------|--------|--------|------|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RPL A | 1000 | Pegged | Pegged | 1000 | RPL A |
| RPL B | 1000 | Pegged | Pegged | 1000 | RPL B |
| C | 5 | 75,000 | 75,010 | 10 | B |
| D | 10 | 74,995 | 75,015 | 10 | F |
| E | 5 | 74,990 | 75,020 | 5 | G |

019/2019-VOP

- A bid from a retail customer of brokerage house B for 10@75,010 aggresses a hidden order (RLP) from brokerage house B, with a hidden order (RLP) from another brokerage house and a visible order from a customer of brokerage house B at the top price level of the order book.
- The trade is published in the market data feed.

| Trade | | | |
|------------|-------------|-----|--------|
| Buy broker | Sell broker | Qty | Price |
| B | RLP B | 10 | 75,005 |

- Resulting book

| BID | | | ASK | | |
|------------|------|--------|--------|------|-------------|
| Buy broker | Qty | Price | Price | Qty | Sell broker |
| RLP A | 1000 | Pegged | Pegged | 1000 | RLP A |
| RLP B | 1000 | Pegged | Pegged | 990 | RLP B |
| C | 5 | 75,000 | 75,010 | 10 | B |
| D | 10 | 74,995 | 75,015 | 10 | F |
| E | 5 | 74,990 | 75,020 | 5 | G |