

July 9, 2020

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## CIRCULAR LETTER

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

Re: **Program to Expand Individual Investor Base for Custody in Cash Market – Second-Half 2020**

B3 hereby publishes the rules and benefits of the Program to Expand the Individual Investor Base for Custody in the BM&FBOVESPA Segment Cash Market, valid for the second half of 2020.

The Program aims to encourage participants to engage in active promotion of investment in equities as an alternative for their customers' portfolios, in pursuit of diversification and profitability.

Valid from **July 1, 2020**, the Program to Expand the Individual Investor Base for Custody in the Cash Market (2020 Program) for second-half 2020 consists of the monthly allocation of bonus credits beginning in September 2020.

The first distribution of credits will be based on B3's revenue from fees for custody services (custody account maintenance fees and custodial value fees) for July 2020 and aligned with the stability mechanism (defined in the Annex to this Circular Letter).

Participants will be eligible for the 2020 Program only if they achieve growth in the number of investors and/or in account balances compared to the base date.

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The credits will be calculated as described in the Annex to this Circular Letter and will be awarded only if the targets set for the program are met.

The credits will be based on a percentage of the revenue in fees earned by B3 from investor use of the custody services provided by its Central Depository. This percentage will vary according to participant performance until December 30, 2020, in terms of:

- (i) Absolute or percentage growth in the number of investors with positive account balances per participant compared to the waterline;<sup>1</sup>
- (ii) Percentage growth in assets under custody (AuC) deflated by the Bovespa Index (Ibovespa) compared to the waterline.

Bonus credits for the 2020 Program will be awarded in accordance with the rules described in the Annex to this Circular Letter.

B3 may at its sole discretion restrict payment of the incentive in cases involving improper activity or distortion of the function of the 2020 Program. The only exception to this restriction will be for payment of B3's custody fee, a usual practice in the equities custody market.

B3 reserves the right to change the rules for the 2020 Program at any time by advance notice.

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<sup>1</sup> The waterline (meaning baseline value) to be considered for the above parameters (number of investors with positive account balances and assets under custody) will be the higher of the values on the cutoff dates for the preceding programs. The concept is clarified by examples in the Annex.

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Further information can be obtained from the Chief Product and Client Officer's team by calling +55 11 2565-4336.

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Chief Executive Officer

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## **Annex to Circular Letter 088/2020-PRE**

### **Program to Expand Individual Investor Base for Custody in Cash Market – Valid for Second-Half 2020**

#### **1. Availability of 2020 Program bonus credits**

Bonus credits for the 2020 Program will be awarded every month from September 2020 on the basis of B3's revenue in July 2020, to which will be applied the distribution percentage calculated by the stability mechanism. At the end of the program in December 2020 calculations will close and participants that performed better than the stability mechanism will receive the full distribution amount as of the first business day of February 2021.

The credits may be used only to pay off debts to B3. If their value exceeds that of the participant's debt to B3 in the month in which they are awarded, the remainder will be carried forward to subsequent bills until the credits expire. Alternatively, the remainder can be used to pay past-due bills owed to B3 by 2020 Program participants.

#### **2. Criteria for allocating credits to participants**

The number of credits will be calculated on the basis of B3's net revenue from custody account maintenance and custodial value fees paid by individual investors via each participant for the custody services provided by B3's Central Depository. The fees are available at [www.b3.com.br/en\\_us](http://www.b3.com.br/en_us), Products and Services, Fee schedules, Central depository services, Custody services. The calculation criteria are described below. The revenue concerned is net of the taxes due on this type of service (currently ISS and PIS/COFINS).

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The percentage used to calculate the bonus credits awarded to participants will be based on their performance in achieving both of the following targets, to be verified on December 30, 2020:

- Absolute or percentage growth in the number of individual investors with positive account balances per participant compared to a waterline (baseline value). No credits will be allocated to participants that do not achieve absolute or percentage growth in the number of investors;
- Percentage growth in investor assets under custody (AuC) per participant deflated by the Bovespa Index in the same period, compared to the waterline. For this metric, B3 will consider the waterline position to be 100%, measuring any increase or decrease on this position in percentage terms.

The following matrix will be used to determine the percentage of B3's revenue in second-half 2020 to be distributed on December 30, 2020:



The stability mechanism will also be used to enhance predictability for participants. According to this mechanism, the percentage distributed will be that

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calculated for the incentive program governed by this Circular Letter or for the immediately preceding incentive program (for first-half 2020 in this case), whichever is higher. New participants, meaning those without positive account balances on June 30, 2020, will be entitled to the highest distribution percentage (80%).

### 3. Examples – Determination of waterline and stability mechanism

#### 3.1 Waterline for inclusion in incentive program matrix

In this example, brokerage house XYZ performed as shown below in previous incentive programs, with verification points in December 2018, June 2019, December 2019 and June 2020.

**Figure 1 – Example of waterline definition<sup>2</sup>**

No. of individual investors with balances in equities depository				
Brokerage house	Dec/18	Jun/19	Dec/19	Jun/20
XYZ	30,000	35,000	50,000	45,000
Semiannual change	-	17%	43%	-10%

  

AuC held on behalf of individual investors in equities depository				
Brokerage house	Dec/18	Jun/19	Dec/19	Jun/20
XYZ	450,000,000	500,000,000	550,000,000	400,000,000
Semiannual change	-	11%	10%	-27%

In the above example, brokerage house XYZ had the largest number of investors with account balances and the highest AuC in December 2019, when it last received incentive program bonus credits. The values for that date (number of

<sup>2</sup> For this example the Ibovespa is assumed to have remained constant throughout all periods. If it had varied, all values for assets under custody (AuC) would have been deflated to the most recent target date, in this case June 2020, and compared.

investors and AuC) will be compared with the values for December 2020 in order to find the participant's place in the matrix and determine the percentage rebate for the 2020 Program.

### 3.2 Stability mechanism

The stability mechanism requires that brokerage XYZ receive a percentage rebate at least equal to that resulting from its performance in the previous incentive program.

**Figure 2 – Example of stability mechanism**

Brokerage house	Rebate according to actual performance			Effective semiannual rebate		
	1H2019	2H2019	1H2020	1H2019	2H2019	1H2020
XYZ	40%	50%	0%	40%	50%	50%

In the example above, brokerage house XYZ should not receive any bonus credits based on its performance in first-half 2020 but application of the stability mechanism means that it receives the same percentage rebate as in the preceding period, based on its performance in that period.

### 3.3 Specific examples

The examples below assume that the Bovespa Index fell 4.8% from 100,093 points to 95,289 points in the period, and that the custody agent received a 30% allocation under the program for first-half 2020.

**Example 1.** A custody agent has 20,000 investors with account balances on the base date and 19,000 in December 2020 (a loss of 1,000 investors or 5%); and AuC of BRL 40,000,000 and BRL 41,000,000 respectively, for 2% growth in AuC, equivalent to 7% growth compared to the Bovespa Index. This performance entitles the participant to 0.00% distribution (investor base growth < 0; AuC

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growth < 10%). Owing to the stability mechanism, however, the distribution result is the same as in the first half: 30%.

**Example 2.** A custody agent has 80,000 investors with account balances on the base date and 82,000 in December 2020 (a gain of 2,000 investors or 2.5%); and AuC of BRL 400,000,000 and BRL 400,050,000 respectively, for growth of 0.01% in AuC, equivalent to 4.8% growth compared to the Bovespa Index. This performance entitles the participant to 15% in credits (0 < investor base growth < 10k or 10%; AuC growth < 5%). Owing to the stability mechanism, however, the distribution result is the same as in the first half: 30%.

**Example 3.** A custody agent has 1,000 investors with account balances on the base date and 2,000 in December 2020 (a gain of 1,000 investors or 100%); and AuC of BRL 20,000,000 and BRL 21,500,000 respectively, for growth of 7.5% in AuC, equivalent to 12.3% growth compared with the Bovespa Index. This performance entitles the participant to 80% distribution (investor base growth > 100k or 50%; AuC growth < 10%).

The last example assumes a 27% rise in the Bovespa Index from 100,093 points to 127,118 points in the six-month period concerned, and a 30% allocation for first-half 2020.

**Example 4.** A custody agent has 20,000 investors with account balances on the base date and 30,000 in December 2020 (a gain of 10,000 investors or 50%); and AuC of BRL 100,000,000 and BRL 150,000,00 respectively, for growth of 50% in AuC, equivalent to 23% growth compared to the Bovespa Index. This performance



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entitles the participant to 80% distribution (investor base growth > 100k or 50%; AuC growth > 10%).

#### **4. Use of 2020 Program credits within same business group**

Participants that need to transfer the discount to another company's invoice in order to achieve their goals should request a transfer by calling the Chief Product and Customer Officer's team on +55 11 2565-4336.

Transfer will be allowed only to a company in the same financial conglomerate or that is part of a merger, acquisition or amalgamation involving the company that requests the transfer.

#### **5. General provisions**

- Any 2020 Program situations not covered by the above rules will be resolved by B3.