

December 20, 2022  
186/2022-PRE

## CIRCULAR LETTER

Listed B3 Participants

Re.: **Accreditation Process for the U.S. Dollar Referenced Currency Futures Market Maker Program - 2023**

We hereby inform you, firstly, that the end of the obligation date for the prevailing U.S. Dollar Referenced Currency Futures Market Maker Program, published in Circular Letter 152/2021-PRE, will be extended **from December 30, 2022, to January 27, 2023**, with the other aspects of the program remaining unchanged.

Market makers will be **free to choose** whether to continue trading as such until the new date for the end of the obligation or conclude their accreditation on the above date therefor.

### **Rules for the 2023 U.S. Dollar Referenced Currency Futures Market Maker Program**

In the 2023 program, up to five market makers will be accredited for each asset that B3 has previously established in Group A, while the interested institution will select one of the assets listed in Group B.

## **Accreditation procedure**

Institutions that wish to take part in this program must request accreditation in accordance with the model described below.

**Model:** adhesion to five currencies, of which four currencies previously established by B3 (Group A) and one currency that the interested institution selects from the assets in Group B.

If the interested institution wishes to be accredited in more currencies, beyond the four preestablished by B3 (Group A) and the one freely selected by the participant (Group B), it must designate contracts from within Group B of this program and request accreditation.

### **Group A: currencies previously established by B3**

- U.S. Dollar per Euro Futures Contract (EUP)
- U.S. Dollar per Pound Sterling Futures Contract (GBR)
- U.S. Dollar per Australian Dollar Futures Contract (AUS)
- Japanese Yen per U.S. Dollar Futures Contract (JAP)

### **Group B: currencies freely selected in accordance with the criteria of the interested institutions**

- U.S. Dollar per New Zealand Dollar Futures Contract (NZL)
- Canadian Dollar per U.S. Dollar Futures Contract (CAN)
- Norwegian Krone per U.S. Dollar Futures Contract (NOK)

186/2022-PRE

- Swedish Krona per U.S. Dollar Futures Contract (SEK)
- Swiss Franc per U.S. Dollar Futures Contract (SWI)
- Chinese Yuan per U.S. Dollar Futures Contract (CNH)
- Turkish Lira per U.S. Dollar Futures Contract (TUQ)
- Argentine Peso per U.S. Dollar Futures Contract (ARS)
- Chilean Peso per U.S. Dollar Futures Contract (CHL)
- Mexican Peso per U.S. Dollar Futures Contract (MEX)
- South African Rand per U.S. Dollar Futures Contract (AFS)
- Russian Ruble per U.S. Dollar Futures Contract (RUB)

B3 will allocate the institutions selected for each of the contracts in accordance with the number of openings offered. In this allocation procedure, B3 may reduce the minimum quantity of contracts for one or more market makers with the aim of maximizing the number of institutions accredited in the program.

The benefits will be granted in proportion to the market maker's activity period in each model.

All other guidance about the procedures for filing the Accreditation Instrument are described in the Procedures Guide for the Accreditation of Market Makers, available at [www.b3.com.br/en\\_us/](http://www.b3.com.br/en_us/), Products and Services, Trading, Market Maker, Join in, Accreditation.

## Timetable

Accreditation instrument filed	Accounts registered	Activity starts	Obligation ends
By Jan. 6, 2023	Jan. 13, 2023	Jan. 30, 2023	Dec. 29, 2023

B3 may, at its sole discretion, assess duly justified accreditation requests that are made after the deadlines given in this Circular Letter.

B3 may also, at its sole discretion, defer the end of this program. In this case it will publish a Circular Letter with information on the length of the extension, any changes to the activity parameters, and other necessary provisions. Market makers will be free to choose whether to continue trading as such until the new date for the end of the obligation or conclude their accreditation on the above date therefor.

## Activity parameters

Market makers accredited for this program must enter bids and asks in accordance with B3's activity parameters.

The list of derivatives eligible for the program and the respective activity parameters can be found in the document Activity Parameters for Market Makers in Currency Futures (Pairs in USD) available at [www.b3.com.br/en\\_us](http://www.b3.com.br/en_us), Products and Services, Trading, Market maker, Join in, Programs, Currency Futures (USD Pairs).

186/2022-PRE

The activity parameters may be changed during the course of the program with the prior consent of the market makers accredited in the assets affected by the parameter change. B3 will formally advise market makers of any proposals to change the activity parameters. They will have seven business days to respond in writing, and the lack of a timely reply will be taken as consent to the proposed change.

The prior consent of market makers will not be necessary if the activity parameters are changed owing to adjustments needed to avoid the creation of artificial demand, supply or pricing conditions.

### **Test period**

The market makers shall enjoy the following benefits, without complying with the activity parameters, for a period of ten business days prior to the start of their mandatory activity, so that they can perform connectivity, session and order routing tests, as well as the necessary technological configurations. After the test period, B3 will monitor the market makers' activity.

### **Maximum number of parameter breaches**

Any market maker's accreditation under this program may be cancelled in the event of more than twelve unjustified breaches of the activity parameters and/or of the obligations set forth in this Circular Letter and in the Market Maker Agreement (Agreement of Accreditation for Market Maker Activity), or if the justification is not accepted by B3. The Agreement is available at [www.b3.com.br/en\\_us](http://www.b3.com.br/en_us), Products and Services, Trading, Market maker, Join In, Contracts.

### **Minimum activity period**

If a market maker desists from the accreditation process without having begun its activities under this program, it will be exempted from meeting the thirty-day minimum activity period required by Circular Letter 109/2015-DP, dated October 8, 2015. If a market maker withdraws after this period, it must comply with the thirty-day activity requirement without fail so that its de-accreditation can be communicated to the market.

### **Benefits**

The accredited market makers for the program will be exempted from the exchange fees and other applicable fees on transactions within Group A, additionally to those within Group B, with any contract month.

For the proposed **Model**, remuneration will be by net value - via bank transfer into an account, with deduction of the taxes that are paid at source as foreseen in the prevailing tax legislation on the payment date – and defined in accordance with the performance of each market maker.

The criteria, limits and conditions for receiving remuneration are available in the Annex hereto.

The market maker must submit the payment data to B3, which in its turn will request information such as NIF code and Iban, among others.

For all the programs described herein, the message flows, trades and volume generated by the accredited institutions will not be considered for the purposes

186/2022-PRE

of the Trading Message Control Policy, as per Circular Letter 039/2013-DP, dated May 27, 2013, and Circular Letter 050/2013-DP, dated July 30, 2013.

### **General provisions**

B3 will resolve any omissions regarding this accreditation process and the program.

Further information can be obtained from the Chief Product and Client Officer's team by telephone on +55 11 2565-4616/5661 or by email at [formadordemercadob3@b3.com.br](mailto:formadordemercadob3@b3.com.br)

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## Annex to CIRCULAR LETTER 186/2022-PRE

### Service Provision Remuneration for Market Makers in U.S. Dollar Referenced Currency Futures

#### 1. Incentives

B3 will award remuneration quarterly net of taxes to market makers accredited with the program, only for the assets of Group A.

The other assets of Group B, selected by the market makers will be exempted from exchange fees and other applicable fees on transactions.

In the month following that of each quarter (April 2023, July 2023, October 2023 and January 2024), B3 will calculate what the growth rate was for each Group A contract, separately, in accordance with the following formula:

$$C_A = \frac{ADV_T}{\text{MAX}(ADV_{T-1}; ADV_{12})}$$

Where:

$C_A$  = growth rate of the asset in Group A in the analyzed period

$ADV_T$  = average daily trading volume in number of contracts in the analyzed period

$ADV_{T-1}$  = average daily trading volume in number of contracts during the quarter preceding the analyzed period

$ADV_{12}$  = average daily trading volume in number of contracts during the last 12 months preceding the analyzed period



186/2022-PRE

The value of  $C_A$  will define the total amount to be distributed to the market makers, in accordance with the following table.

<b>"C<sub>A</sub>" tier</b>	<b>revenue % of the asset to be distributed to the market maker (in reference to the period analyzed)</b>
+10%	3%
+20%	6%
+30%	9%
+40%	12%
+50%	15%

Therefore, if the asset's growth rate is under 10% in the analyzed period, the market maker will not receive remuneration.

If, for example the asset has a 37% growth rate in the period, 9% of the asset's revenue will be distributed to the market maker.

On this note, a market maker will be eligible to receive the benefit if, in the analysis period, it meets at least 70% of its obligations with under 50% in cross trades, in the four assets of Group A and in the one asset it selects in Group B.

The percentage to which obligations are met will be calculated based on total activity in the month, including atypical market situations such as excessive volatility, when failure to comply may be justified.

If there are more than three market markers eligible for the benefit in a single asset of Group A, B3 will select the three that have the best performance (based on the volume traded by the market makers) to receive the remuneration. The total value will be divided among the selected market makers (according to the above criteria) proportionate to the volume traded by them.

186/2022-PRE

In the case of three or fewer market makers trading in the asset, total value will be divided among the selected market makers based on their trading volume (as explained above).

Payment shall be made by the last day of the month that follows the end of the quarter.

### **Model: example of remuneration after the first quarter of activity**

**Premise:** five market makers trading in the program.

#### **Group A contracts:**

- U.S. Dollar per Euro Futures Contract (EUP)
- U.S. Dollar per Pound Sterling Futures Contract (GBR)
- U.S. Dollar per Australian Dollar Futures Contract (AUS)
- Japanese Yen per U.S. Dollar Futures Contract (JAP)

#### **Revenue of these assets**

**Table 1 – Growth rate of the contracts in the period and % total remuneration per asset**

<b>Contract</b>	<b>Growth (C<sub>A</sub>)</b>	<b>% remuneration</b>
U.S. Dollar per Euro Futures Contract (EUP)	2%	0%
Japanese Yen per U.S. Dollar Futures Contract	29%	6%

186/2022-PRE

U.S. Dollar per Pound Sterling Futures Contract (GBR)	56%	15%
U.S. Dollar per Australian Dollar Futures Contract (AUS)	-12%	0%

**Table 2 – Market makers’ compliance in the period and market share %**

Market maker	Compliance % of obligations	Market share %	Cross trades %
1	90%	13%	45%
2	80%	22%	35%
3	76%	32%	52%
4	58%	5%	35%
5	95%	28%	23%

Therefore, market makers 3 and 4 did not obtain the necessary performance for remuneration in this period by the percentage of cross trades criterion and for respectively meeting the obligations. Among the others, the three that obtained the necessary performance, based on trading volume, were market makers 1, 2 and 5.

The market share percentage (%) for each market maker was calculated as follows:

$$\text{market share} = \frac{\text{ADV}_{\text{market maker } x}}{\text{ADV}_{\text{total among market makers}}}$$

**Table 3 - Final remuneration of the market makers**

Market maker	Remuneration
1	27% x U.S. Dollar per Pound Sterling Futures (GBR) x 15%*
2	39% x U.S. Dollar per Pound Sterling Futures (GBR) x 15%*
5	34% x U.S. Dollar per Pound Sterling Futures (GBR) x 15%*

\* Average remuneration of the traded group of assets based on Table 1 (illustrative purposes only). The real process will calculate on a per-asset basis.

186/2022-PRE

The remuneration for each market maker will occur as follows:

$$\text{Remuneration}_{\text{per MM}} = \% \text{market share Top 3}_{\text{asset}} \times \text{Revenue}_{\text{asset}} \times \% \text{ remuneration}$$

Where:

$$\% \text{market share Top 3}_{\text{asset}} = \frac{\text{ADV}_{\text{market maker x in the asset}}}{\text{ADV}_{\text{total among Top 3 market makers in the asset}}}$$

**% remuneration** = according to the tier defined in Table 1.

Please note that this method will be applied separately for each of the four contracts, to capture the market maker's performance and remuneration in each asset, and not in the full package being traded.

Calculations will be rounded off to two decimal places.