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Cícero Augusto Vieira Neto
José Ribeiro de Andrade
B3 S.A.

Via e-mail

Re: Public Consultation on Change to Rule for Registration of Cross Orders in Exchange Environment

Dear Sirs:

The FIA Principal Traders Group ("FIA PTG")[1] appreciates the opportunity to comment on the above-captioned public consultation. Members of FIA PTG account for a substantial percentage of the trading volume on B3 S.A. – Brasil, Bolsa, Balcão ("B3"), as well as many of the other leading financial markets in the world. Our deep experience trading at scale on leading financial markets gives us unique insights regarding how market structure changes impact investors.

On December 19, 2018, B3 presented a proposal (the "Proposal") to change the rule now in effect for the registration of cross orders in order to unify the rules between the BM&F and Bovespa segments (the "Markets"). Most importantly, the Proposal would establish a mechanism to allow retail brokers to trade as counterparties to the order flow of their retail customers. FIA PTG submits that this retail broker preferencing would damage the health of the Markets, perpetuate a conflict of interest, and ultimately harm the investors that trade on the Markets.

The Proposal seeks to benefit retail brokers by giving them the opportunity to preferentially trade with the orders of their own retail customers by using a new order type called "retail liquidity provider ("RLP")." Though not specifically highlighted in the Proposal, in order to implement RLP, B3 would alter the matching function of the Markets by introducing price/broker/time logic for aggressively priced retail orders. While the introduction of RLP would be favorable to the

[1] FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy and has previously made recommendations about a variety of equity market structure issues, including Regulation NMS (See https://ptg.fia.org/keywords/equity-market-structure).

narrow interests of the brokers that have a substantial retail customer base, their gain would be at the expense of other market participants who today choose to display orders on the Markets.

Market participants, like members of FIA PTG, contribute to the health of the Markets by displaying orders on the Markets. Doing so can be profitable in large part because displayed orders on the Markets today have an equal and fair opportunity to interact with a mix of retail and non-retail orders.

The Proposal would instead let brokers that have a substantial retail customer base preferentially interact with retail orders. By allowing brokers to skim the most desirable order flow from the market, other market participants would have no choice but to reduce their display of orders in the Markets, or abandon doing so altogether. As the consultation recognizes, giving retail brokers the proposed allocation preference "would discourage the [display of] orders, reducing liquidity and increasing spreads, to the detriment of the entire market." (Proposal at p.10.)

The Proposal would also create significant conflicts of interest between retail investors and their brokers. First, by encouraging retail brokers to capture proprietary trading profits from their retail order flow, the Proposal would give those brokers a significant financial incentive to market to retail customers those investments that have the greatest proprietary trading profit potential, rather than those investments that are the most suitable or best investments for retail investors.

Second, the Proposal fails to encourage best execution for retail customers by enabling competition among all market participants to offer the best prices to retail investors. Under the Proposal, once a broker receives a retail order, the retail order allocation preference would be available to that broker and that broker alone. This is the case even though other market participants might have been willing to offer better prices to retail order flow than the broker that received the order.

While we support B3's efforts to make the cross-order rules consistent across the Markets, and we support clear cross order rules that are consistently enforced, we believe the Proposal's retail broker preferencing mechanism would badly damage the health of the Markets. The Markets have been served well by current rules which encourage open and fair price competition among all market participants in central limit order books.

If you have any questions about these comments, or if we can provide further information, please contact Joanna Mallers (jmallers@fia.org).

Respectfully,

FIA Principal Traders Group

Joanna Mallers
Secretary

cc: Francisco José Bastos Santos, Director, Office of Market Surveillance, CVM