

November 7, 2019

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## **C I R C U L A R   L E T T E R**

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

Re: **Accreditation Process for Market Makers in Micro S&P 500 Futures Contract Settled in Cash to the CME Group S&P 500 Quotation**

We hereby inform you of the start of the process for accreditation of market makers in the Micro S&P 500 Futures Contract Settled in Cash to the CME Group S&P 500 Quotation (WSP).

Up to five market makers will be accredited under this program.

If the number of accreditation requests exceeds the number of openings, the market makers to be accredited will be selected at the sole discretion of B3.

Market makers in this program will also be required to contribute to market making in the Rollover of the Micro S&P 500 Futures Contract Settled in Cash to the CME Group S&P 500 Quotation (WS1).

### **Accreditation procedure**

Institutions that wish to take part in the program are advised to consult 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**

<b>Accreditation Instrument filed</b>	<b>Account registration</b>	<b>Start of activity</b>	<b>End of obligation</b>
By Nov. 22, 2019	Nov. 29, 2019	Dec. 16, 2019	Dec. 11, 2020

B3 may at its sole discretion assess accreditation applications submitted after these deadlines, provided the delay is duly justified.

The duration of this program may be extended at B3's sole discretion. If the end of the obligation is deferred, B3 will issue 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 execute bids and offers in accordance with the following activity parameters:

Asset	Maximum spread	Minimum quantity	Minimum activity during trading sessions	Contract months
WSP	1.0	20	80%	1st and 2nd
WS1	1.0	20	80%	Mandatory activity in 1st contract month of WSP on T-4 and T-3

Market makers are required to register bids and offers for at least the first two contract months admitted to trading and must do so until the fifth business day before WSP expiration. Thereafter they are obliged to trade the subsequent contract month.

On the fourth and third business days prior to expiration, market makers are required to trade WS1.

### Test period

Market makers enjoy the benefits specified below without having to observe the activity parameters for up to ten business days before the start of their mandatory activity so that they can execute connectivity, session and order routing tests, as well as the necessary technological configurations. After the test period, market makers' activities will be monitored by B3.

### Maximum number of parameter breaches

Any market maker's accreditation to 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 Activity Accreditation Agreement, or if the justification is not accepted by B3.

**Waiver of obligation**

Market makers in this program are not required to fulfill the activity parameters on dates that are public holidays in New York or Chicago. They may also suspend mandatory activity whenever there is no trading session on CME Group's electronic trading platform.

**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 the start of its activity, it must comply with the thirty-day notice period without fail so that its deaccreditation can be communicated to the market.

**Benefits**

Accredited market makers will be exempt from exchange fees and other fees on all trades in any contract months of the assets that are the object of this program.

In addition, market makers may receive a share of B3's total revenue from trading in the Micro S&P 500 Futures Contract ("revenue pool"), in accordance with the terms and conditions described in the Annex to this Circular Letter.

The message flows, trades and volume generated by the accredited institutions will not be considered for the purposes 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.

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Further information can be obtained from the Chief Product and Client Officer's team by telephone on +55 11 2565 5026 or by email at [formadordemercadob3@b3.com.br](mailto:formadordemercadob3@b3.com.br).

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Chief Product and Client Officer

## **Annex to Circular Letter 083/2019-PRE**

### **Conditions for Revenue Pool Eligibility – Market Makers in Micro S&P 500 Futures Contract (WSP) and Rollover (WS1)**

#### **1. Purpose**

The purpose of this program is to offer market makers in the Micro S&P 500 Futures Contract incentives to develop, promote and guarantee liquidity for the futures market operated by B3 and for the contract concerned.

In this program, besides the benefit consisting of exemption from exchange fees and from (i) fixed and variable registration fees, (ii) settlement fees, and (iii) permanence fees on trades in all contract months of the asset concerned, market makers may also receive the following benefit:

- Twenty per cent (20%) of B3's total revenue from trading in the Micro S&P 500 Futures Contract ("revenue pool") will be distributed net of taxes to the three market makers with the highest trading volumes in the periods and proportions specified in item 3 below.

#### **2. Eligibility**

Market makers accredited under the program for the Micro S&P 500 Futures Contract will be considered eligible for a share of the revenue pool only if their trading volume reaches the necessary classification in the periods concerned, as described in item 3 below.

Market makers not selected by B3 for accreditation under this program will not be entitled to the benefit of sharing in the revenue pool.

#### **3. Calculation of revenue pool shares**

The revenue pool for this program is defined as B3's total revenue from trading in the Micro S&P 500 Futures Contract after deduction of the taxes levied on such

revenue or on the price of the service, as applicable (currently ISS and PIS/COFINS).

Twenty per cent (20%) of the revenue pool will be shared among the three market makers with the highest trading volumes in the contract in the periods concerned.

Each month B3 will calculate the value of the benefit and will verify each participant's contribution to the revenue generated in order to identify those ranked first, second and third by trading volume (in contract quantities). These will receive the benefit. In the event of a tie, the market maker with the best performance in the mandatory activity parameters will be selected.

The amount corresponding to twenty per cent (20%) of the revenue pool will be distributed in the following proportions:

- Fifty per cent (50%) to the market maker ranked first
- Thirty per cent (30%) to the market maker ranked second
- Twenty per cent (20%) to the market maker ranked third

Even if the number of market makers accredited under the program is less than three, the shares will remain the same in percentage terms.

The benefit will be calculated monthly and, if received in cash, will be distributed quarterly (by the last business day of the month following the calculation period) to the first three participants, in accordance with the following timetable:

Calculation period		Benefit awarded
Dec. 16-Dec. 31, 2019	1st calculation period	<b>MM ranked first:</b> 50% of benefit
Calendar months	Other calculation periods	<b>MM ranked second:</b> 30% of benefit
Dec. 1-Dec. 11, 2020	Last calculation period	<b>MM ranked third:</b> 20% of benefit

The benefit can be paid in cash or in the form of credits for use solely to reduce the fees charged by B3 on trades in one of the following futures contracts:

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- One-Day Interbank Deposit Futures Contract (DI1)
- US Dollar Futures Contract (DOL)
- Mini US Dollar Futures Contract (WDO)
- Ibovespa Futures Contract (IND)
- Mini Ibovespa Futures Contract (WIN)
- S&P 500 Futures Contract (ISP)

In the case of credits, the market maker must choose one of the above financial instruments for use of the benefit. Designating more than one instrument is not allowed.

The instrument to which the benefit applies may not be changed for the duration of the program.

The credits awarded will expire at the end of the month following the month for which the benefit is calculated and cannot be renewed.

Each month B3 will tell market makers how many futures contracts are available for use of the credits awarded in the above manner, considering the following values as the average cost per contract:

DI1	BRL 0.60
IND	BRL 1.11
WIN	BRL 0.16
DOL	BRL 2.49
WDO	BRL 0.61
ISP	BRL 5.44

Market makers will be responsible for paying exchange and other fees in full on trades involving the selected instrument that exceed the number of contracts established each month by B3. The daily value of excess fees will accumulate during the month and must be paid by market makers not later than the last business day of the following month.

The following per contract fees will be due on excess trades as defined above:

DI1	BRL 1.40
IND	BRL 1.95

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WIN	BRL 0.39
DOL	USD 1.15
WDO	USD 0.23
ISP	USD 3.07

Costs in US Dollar (USD) will be translated to Brazilian Real (BRL) at the PTAX sell rate for the last day of the month preceding the trade date.

These fees will not be eligible for differentiation by investor type, progressive discount policies in accordance with average daily trading volume (ADTV) or day-trade volume, or any other discounts B3 may introduce.

It should be noted that the above percentage shares of benefit to be received by the market makers ranked first, second and third are based on the total benefit calculated in accordance with B3's monthly net revenue from trading in the Micro S&P 500 Futures Contract. Absolute monetary values will not be established for the benefit.

If the Micro S&P 500 Futures Contract is not traded during a calculation period, so that B3 earns no revenue from it, no benefit will be distributed for the period.

For the purposes of measuring participants' trading volumes, only trades that comply with the rules and procedures established for the futures market by B3 will be considered. Canceled trades and trades that do not comply with the pertinent requirements will not be considered.

Market makers will be notified of the rankings and benefit values awarded by email not later than the fifth business day of the month following the last month in each calculation period.

The benefit will be paid or credited to market makers in net terms after deduction of the withholding taxes specified in the applicable tax legislation in force on the date of payment or credit.

Market makers interested in accreditation under the program after its inception will be allowed to begin acting as market makers only on the first business day of the calculation period subsequent to their accreditation.