

April 14, 2020

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## CIRCULAR LETTER

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

Re: **Accreditation Process for Market Makers in DI x IPCA Spread Futures (DAP)**

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

If the number of accreditation requests surpasses the number of available openings, market makers will be selected for accreditation at the sole discretion of B3, which may also revise the maximum number of market makers to be accredited.

### Accreditation procedure

Institutions that wish to take part in the program can find the relevant information in the Procedures Guide for the Accreditation of Derivatives Contract Market Makers, available at [www.b3.br/en\\_us](http://www.b3.br/en_us), Products and Services, Trading, Market maker, Join in, Accreditation.

### Timetable

Instrument of accreditation signed	Accounts registered	Start of activity	End of obligation
By April 23, 2020	April 30, 2020	May 02, 2020	April 30, 2021

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

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trading as such until the new date for the end of the obligation or allow their accreditation to expire on the date shown above.

### **Activity parameters**

Market makers accredited for this program must enter bids and asks in accordance with the activity parameters defined by B3.

The list of securities eligible for the program and the respective activity parameters can be found in the document Activity Parameters for Market Makers in DI x IPCA Spread Futures (DAP), available at [www.b3.br/en\\_us](http://www.b3.br/en_us), Products and Services, Trading, Market maker, Join in, Programs, DI x IPCA Spread Futures Contract (DAP).

### **Test period**

Market makers are entitled to the benefits specified in this Circular Letter without complying with the activity parameters for up to ten business days before the start of their mandatory activity in order to conduct connectivity, session and order routing tests, and implement the requisite technological configurations. After the test period, market maker 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 Accreditation Instrument, available at [www.b3.br/en\\_us](http://www.b3.br/en_us), Products and Services, Trading, Market Maker, Join in, Contracts, Futures, or if the justification is not accepted by B3.

### **Minimum activity period**

Market makers that withdraw from the accreditation process before starting their activities under the program will not be required to complete the thirty-day minimum period of activity established by Circular Letter 109/2015-DP, dated October 8, 2015. If they withdraw after starting their activities, they must complete

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the thirty-day notice period without fail in order for their de-accreditation to be communicated to the market.

### **Benefits**

Institutions accredited for this program will be entitled to the benefits described in the fee policy set out in the Annex to this Circular Letter, which include:

- Exemption from exchange and other fees on trades in the DI x IPCA Spread Futures Contract (DAP) and hedging transactions involving the One-Day Interbank Deposit Futures Contract (DI1), provided they comply with the rules and limits established in the Annex to this Circular Letter;
- Credits to be used for deduction from B3's exchange and other fees on DI1 trades. For market makers that choose model A, the credits will have fixed and variable portions defined according to the individual performance of each market maker accredited for model A. For market makers that choose model B, the credits will have only fixed portions.

Please note that 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 set forth in Circular Letters 039/2013-DP, dated May 27, 2013 and 050/2013-DP, dated July 30, 2013.

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### **General provisions**

B3 will resolve any omissions regarding the accreditation process and program to which this Circular Letter refers.

Further information can be obtained from the Chief Product and Client Officer's team by telephone on +55 11 2565-5026/5870 or by email at [formadordemercadob3@b3.com.br](mailto:formadordemercadob3@b3.com.br).

Gilson Finkelsztain  
Chief Executive Officer

José Ribeiro de Andrade  
Chief Product and Client Officer

## **Annex to Circular Letter 047/2020-PRE**

### **Fee Policy for Market Makers in DI x IPCA Spread Futures Contract (DAP)**

#### **1. Market maker eligibility**

This fee policy applies to market makers accredited by B3 in this program for the DI x IPCA Spread Futures Contract (DAP).

#### **2. Fee structure**

##### **2.1. Exchange and other fees on DAP trades and DI1 hedging trades**

Exchange and other fees on DAP trades by market makers will be reduced to zero provided they comply with the eligibility condition in item 1. This exemption will apply to trades in any contract month, whether mandatory as per the activity parameters detailed in this Circular Letter or non-mandatory.

Exchange and other fees on DI1 hedging trades in any contract month will also be reduced to zero provided these trades do not exceed the number of DAP contracts traded in the same session. For example, a market maker that buys 100 DAP contracts will be entitled to the exemption when selling up to 100 DI1 contracts.

DI1 trades exceeding the number of DAP trades will be subject to a charge of BRL0.90 per contract for exchange and other fees. 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.

##### **2.2. Exchange and other fees on other DI1 trades**

B3 will grant credits for use solely for deduction from exchange and other fees on DI1 trades provided they comply with the parameters described below, which vary according to the market maker's choice of model (A or B).

### 2.2.1. Model A

- I. A fixed credit of BRL20,000 per month for each market maker.
- II. A variable credit, to be defined according to the number of market makers accredited under model A, as follows:
  - i) BRL60,000 per month if only one market maker is accredited under model A;
  - ii) BRL120,000 per month if two market makers are accredited under model A;
  - iii) BRL180,000 per month if three market makers are accredited under model A.

The variable credit will be distributed among the market makers in proportion to their shares in total DAP volume traded by all market makers accredited under model A for all contract months, considering the following weights assigned by B3 to each contract month and trading period:

Contract months	Weights	
	Regular hours	Closing call
Until end-2021	1	3
2022-2024	3	9
2025-2026	5	15
From 2027	7	21

Fixed and variable credits will be valid until the end of the next month following the month of market-making activity (for example, the credit for May 2020 can be used until June 2020) and non-renewable.

Each month B3 will inform market makers of the quantity of DI1 contracts available for trading with the sum of fixed and variable credits, considering the amount of BRL0.60 per contract for conversion into credits relating to DI1 (average transactional cost).

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### Model A: Example of credits after first month of activity

**Premise:** Three market makers accredited under model A.

**Fixed credit:** BRL20,000 for each market maker.

**Variable credit according to quantity of contracts traded:**

		Market makers		
Trading period	Vertices	A	B	C
Regular hours	January 2021	20	10	20
	August 2028	30	25	40
Closing call	August 2020	20	20	15
	May 2025	30	30	10
<b>Sum of weighted contracts</b>		$(20 \times 3) + (30 \times 7) + 3 \times [(20 \times 1) + (30 \times 5)] = 780$	$(10 \times 3) + (25 \times 7) + 3 \times [(20 \times 1) + (30 \times 5)] = 715$	$(20 \times 3) + (40 \times 7) + 3 \times [(15 \times 1) + (10 \times 5)] = 535$
<b>Market maker share of total</b>		$\frac{780}{2,030} = 38.4\%$	$\frac{715}{2,030} = 35.2\%$	$\frac{535}{2,030} = 26.4\%$

#### Distribution to ranked market makers:

- 1st place:  $\text{BRL}180,000.00 \times 38.4\% = \text{BRL}69,120.00$
- 2nd place:  $\text{BRL}180,000.00 \times 35.2\% = \text{BRL}63,360.00$
- 3rd place:  $\text{BRL}180,000.00 \times 26.4\% = \text{BRL}47,520.00$

**Total credit** (sum of fixed and variable credits, with round lot decimal fraction rounded up):

- 1st place:  $\frac{(\text{BRL}20,000.00 + \text{BRL}69,120.00)}{\text{BRL}0.60} \cong 148,535$  contracts
- 2nd place:  $\frac{(\text{BRL}20,000.00 + \text{BRL}63,360.00)}{\text{BRL}0.60} \cong 138,935$  contracts
- 3rd place:  $\frac{(\text{BRL}20,000.00 + \text{BRL}47,520.00)}{\text{BRL}0.60} \cong 112,535$  contracts

### 2.2.2 Model B

A fixed credit of BRL80,000 per month for each market maker accredited under model B, valid until the end of the next month following the month of market-making activity and non-renewable.

### **3. General provisions**

Market makers will be responsible for payment of exchange and other fees in full on DI1 trades that (i) exceed the number of contracts announced monthly by B3; and (ii) do not match the fee structure rules in item 2. Daily exchange and other fees on surplus contracts will be accumulated monthly and must be paid by market makers not later than the last business day of the subsequent month.

Market makers that are de-accredited from the program by B3 or request de-accreditation before the end of their obligation will no longer be entitled to the benefits described in this policy.

After the obligation has ended, the market maker's account will be subject to exchange and other fees in accordance with the fee policy then in force, but any remaining credits may still be used for deduction from DI1 futures contract costs.