November 23, 2023
197/2023-PRE

# CIRCULAR LETTER

Listed B3 Participants

Re.: **Exchange Fee and Other Fee Exemption Rules for Equity ETF Market Makers**

B3 hereby informs you that as of **December 1st, 2023** new exemption rules will come into effect regarding exchange fees and other fees for equity ETF market makers contracted by the issuer or accredited in programs managed by B3, or who have already been accredited previously. The rules apply both to regular trading in ETFs and to hedging transactions.

The new fee policy is published in Annexes I and II hereto.

Further clarification can be obtained from the Listed Products Department by calling +55 11 2565-4227 or emailing formadordemercadob3@b3.com.br

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**Annex I to CIRCULAR LETTER 197/2023-PRE**

**Fee Policy for Market Makers in Equity ETFs**

## 1. Conditions for market maker eligibility

This fee policy applies to market makers in the ETFs that track equity indices whose theoretical portfolios are comprised of assets traded on B3 (market makers).

## 2. ETF market maker fees

Market makers are exempted from paying exchange fees and other fees on purchases and sales of ETF shares for which they make market (ETF shares).

## 3. Exemption on hedge trades

Market makers are also exempted from paying exchange fees and other fees on standard cash market and odd lots market transactions performed for hedging purposes with assets traded on B3 that are part of the theoretical portfolio of the reference index that the ETF in question tracks (hedge fee exemption).

The hedge fee exemption is processed in accordance with the market maker categories defined in items 3.1 and 3.2 below.

### 3.1. Eligibility for the first group

To be eligible for the hedge fee exemption in accordance with the criteria and limits established in this item, market makers must be accredited for ETFs with an average daily trading volume (ADTV) of less than BRL 80 million in the twelve months before the calculation month.

The provisions of this item (3.1) will remain applicable to market makers for as long as this policy is in force even if the ETFs for which they are accredited cease to comply with the criteria stipulated in the previous paragraph.

#### 3.1.1. Limits for exemption

The market makers will enjoy the hedge fee exemption if they remain within the following limits:

i) The financial volume of the purchases and sales of assets performed for hedging purposes on any single day in the account designated for the market maker's activity, in accordance with item 4 of this Annex, must not exceed the financial volume on the same day of the respective sales and purchases (offsetting) of the ETF shares for which the market maker is accredited.

ii) The financial volume of purchases and sales performed for hedging purposes with each asset in the theoretical portfolio of the reference index tracked by the ETF for which the market maker is accredited must not exceed thirty per cent (30%) of the financial volume on the same day of the respective sales and purchases (offsetting) in the ETF's shares.

Only trades to which the market maker is a party are considered for the purposes of calculating financial volume.

Daily excess volume is defined as the largest exceeding value between the limits defined in item (i) or (ii). The fee policy applied to the daily excess volume is described in Annex II hereto.

For the purposes of hedge fee exemption, the total trading volume in the standard cash market and odd lots market will be considered.

Market makers with daily excess volumes accumulated during the month must pay in full the exchange fees and other fees due on the excess by the last business day of the subsequent month.

### 3.2. Eligibility for the second group

To be eligible for hedge fee exemption in accordance with the criteria and limits established in this item (3.2.) market makers must be accredited for ETFs with an ADTV equal to or greater than BRL 80 million in the twelve months before the month of calculation.

### 3.2.1. Limits for hedge fee exemption

The market makers will enjoy the hedge fee exemption if they remain within the following limits:

i) The financial volume of purchases and sales of assets performed for hedging purposes on any single day in the account designated for the market maker's activity in accordance with item 4 of this Annex I must not exceed the financial volume for the same day in the respective sales and purchases (offsetting) of ETF shares for which the market maker is accredited.

ii) The financial volume of purchases and sales performed for hedging purposes with each asset in the theoretical portfolio of the index tracked by the ETF for which the market maker is accredited must not exceed thirty per cent (30%) of the financial volume for the same day in the respective sales and purchases (offsetting) of the ETF's shares.

iii) The financial volume of purchases and sales of assets performed for hedging purposes in the month must not exceed thirty-five per cent (35%) of the total financial volume of ETF shares traded by the market in the same month.

Only trades with the market maker's account designated when the respective orders are registered in the trading environment, in accordance with item 4 of Annex I hereto, will be considered for the purposes of calculating the financial volume of purchases and sales of ETF shares, as per items (i) and (ii).

Excess volume will be defined as the largest exceeding volume from limits (i) and (ii). At the start of the month following that of the transactions, if limit (iii) is breached in the calculation month, the excess volume will be defined as the largest value from the sum of daily excess volumes and the excess volume of limit (iii). The hedge excess fee policy described herein is contained in Annex II hereto.

Hedge fee exemption will consider total trading volume in both the standard cash market and the odd lots market.

Market makers with daily excess volume accumulated during the month must pay in full the exchange fees and the other fees due on the excess by the last business day of the subsequent month.

## 4. Account for hedge fee exemption

For the purposes of the fee exemption on hedge trades, market makers must designate one specific account for each ETF for which they are accredited, regardless of the number of accounts they have for the exercise of their activity. The buy and sell financial volume in ETF shares, solely in the defined account, will be used to define the hedge fee exemption value.

The market maker must designate an account solely and exclusively for hedging or run the risk of a higher calculation of the hedge trades excess.

## 5. General provisions

Any market maker whose accreditation is cancelled before the established date will cease to be entitled to the exemptions described in this policy as of the cancellation date.

To determine eligibility for the benefits described in this policy, the calculation of ADTV mentioned in items 3.1 and 3.2 will consider the end of the twelve-month period to be the last business day of the month prior to the month in which this policy comes into effect.

In applying this fee policy, B3 will analyze individually any proposed splits, reverse splits or other actions that alter the base-quantity of ETF shares, or otherwise affect the assessment of eligibility conditions and hedge fee exemption criteria described in Annex I hereto.

This fee policy does not apply to market makers for other securities admitted to trading on the markets operated by B3.

B3 may suspend the market maker's exemption at any time, after advance notice, should it detect that the hedge fee exemption benefit is being used for a different end than that required by this policy.

The trading volume in accounts and assets that are registered in the program, both for activity in the program and for hedging, will **not** be considered for day trade volume calculation to define the cash equities market day trading fee tier. All cases not covered expressly by this policy will be resolved by B3.

**Annex ll to CIRCULAR LETTER 197/2023-PRE**

**Fee Structure for Excess Day Trade Volume and Excess Non-Day Trade Volume Applied Exclusively to the Programs in this Circular Letter**

1. **Segregation of the financial volume of hedge assets between day trade and non-day trade volume**

**1.1.** The financial volume traded as a hedge in the designated account is grouped in accordance with the following criteria:

i) same trading session date

ii) same clearing member

iii) same participant code (carrying in the case of give-up)

iv) same account code

v) security ID (asset)

vi) position

**1.2.** The day trade and non-day trade volume calculations of each asset that comprises the theoretical portfolio of the reference index for the respective ETF are defined daily by:

$$\textbf{Day trade volume}_i = \mathbf{2} \times \textbf{Minimum}(\mathrm{V_C}, \mathrm{V_V})$$

$$\textbf{Non-day trade volume}_i = (\mathrm{V_C} + \mathrm{V_V}) - \textbf{Day trade volume}_i$$

where:

- i represents each asset of the theoretical portfolio of the reference index of the respective ETF;
- $\mathrm{VC}_i$ = buy volume of asset i; and
- $\mathrm{VV}_i$ = sell volume of asset i.

**1.3.** Daily consolidation of the volumes of the assets of the theoretical portfolio for the reference index of the respective ETF:

$$\text{Day trade volume}_{day} = \sum_i \text{Day trade volume}_i$$

$$\text{Non-day trade volume}_{day} = \sum_i \text{Non-day trade volume}_i$$

$$\text{Total volume}_{day} = \text{Day trade volume}_{day} + \text{Non-day trade volume}_{day}$$

in which i represents each asset of the theoretical portfolio for the reference index of the respective ETF.

**2. Segregation of the <u>excess</u> financial volume of the hedge between excess day trade volume and excess non-day trade volume**

**2.1. Rule valid for the first ETF group of section 3.1 and for the second ETF group of section 3.2, which meet the criteria of section 3.2.1 of Annex I**

$$\text{Excess day trade volume}_{day} = \mathrm{p}_{day} \times \text{Excess volume}_{day}$$

$$\text{Excess non-day trade volume}_{day} = \text{Excess volume}_{day} - \text{Excess day trade volume}_{day}$$

in which $\mathrm{p}_{day}$ is a proportion of the excess volume over the total volume, daily, calculated as

$$\mathrm{p}_{day} = \frac{\text{Excess volume}_{day}}{\text{Total volume}_{day}}$$

whereby

- $\text{excess volume}_{day}$ defined in accordance with the rules of section 3 of Annex II hereto;
- $\text{total volume}_{day}$ defined in section 1.3 of Annex II hereto; and
- $\mathrm{p}_{day}$ is the proportion rounded up to two decimal places.

**2.2. Rule valid for the second ETF group of section 3.2 and which does not meet criteria (iii) of section 3.2.1 of Annex I**

**2.2.1.** For the market makers of the second ETF group (section 3.2) that do meet criterion (iii) of section 3.2.1, the excess monthly volume is defined as:

$$\text{Excess volume}_{month} = \sum_{day} \text{Total Volume}_{day} - \text{Exempted volume}_{month}$$

where

- $\text{total volume}_{day}$ defined in section 1.3 of this Annex
- $\text{exempted volume}_{month}$ = exempted volume in the month defined by items (i), (ii) and (iii) of section 3.2.1.

**2.2.2.** The segregation of the excess monthly day trade volume and excess non-day trade volume is defined by:

$$\text{Excess day trade volume}_{month} = \text{q}_{month} \times \text{Excess volume}_{month}$$

$$\text{Excess non-day trade volume}_{month} = \text{Excess volume}_{month} - \text{Excess day trade volume}_{month}$$

where $q_{month}$ is the proportion of the month's excess volume over the month's total volume, rounded off to two decimal places

$$\text{q}_{month} = \frac{\sum_{day} \text{Day trade volume}_{day}}{\sum_{day} \text{Total Volume}_{day}}$$

**Application of the trading and settlement fees on the excess volumes of the programs of this Circular Letter**

**2.3. Rule valid for the first ETF group of section 3.1 and for the second ETF group of section 3.2 which meet the criteria of section 3.2.1 of Annex I**

Excess day trade and non-day trade volumes are daily charged the trading and settlement fees foreseen for the cash market.

The exchange fees and other fees charged on the excess are accumulated and executed in the month following the transaction month.

**2.4. Rule valid for the second ETF group of section 3.2 that does not meet criterion (iii) of section 3.2.1 of Annex I**

A 0.5 bps trading fee and 1.8 bps settlement fee is charged on the month's excess day trade volume. The trading and settlement fees foreseen for the cash market are charged on the excess non-day trade volume.

The exchange fee and other fees charged on the excess is accumulated and executed in the month following the transaction month.

## 3. General provisions

All the volume (exempted or charged a fee as excess) of the asset in the account registered in the program is **not** considered in the composition of ADTV, which daily defines the trading and settlement fees for day trade volumes.

B3's fee benefits for other programs are **not** applied to the excess volumes in the accounts registered in this program.