

May 19, 2022
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CIRCULAR LETTER

"Revoked by Circular Letter n° 176/2022-PRE, of 13 of December of 2022."

To: Listed B3 Participants

Re: **Rules for Registration of Cross Orders – Minimum Size and Thresholds for Asset and Derivative Markets**

New rules governing the registration of cross orders with PUMA Trading system for all Listed B3 assets and derivatives take effect on **June 1, 2022** and are detailed below.

1. Rules governing registration of cross orders

In addition to the provisions of B3's normative documents, the registration of cross orders for assets and derivatives will be accepted only if compliance with the following rules is verified:

- I. In the absence of bids, the price of the cross order will obey the limits of auction tunnels.
- II. For situations in which the spread shown on the screen exceeds the tick size:
 - a) Between the best bid and the best ask, respecting the asset's or derivative's tick size; or
 - b) At the best bid or ask, if the cross order is part of a structured transaction or required to correct an operational error.

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- III.** For situations in which the spread shown on the screen is equal to tick size at the best bid or ask, and solely for the cases below:
- a)** If the size of the order is out of proportion to the liquidity of the asset or derivative in accordance with parameters established by B3 at www.b3.com.br/en_us, Solutions, Platforms, PUMA Trading System, Rules and trading parameters;
 - b)** If the order is out of proportion to the liquidity of the asset or derivative for execution at the average price of the day, and generated by TWAP (time weighted average price) or VWAP (volume weighted average price) algorithms, in accordance with parameters established by B3 at www.b3.com.br/en_us, Solutions, Platforms, PUMA Trading System, Rules and trading parameters;
 - c)** If the order is part of a structured transaction;
 - d)** If the order serves to correct a participant's operational error.

It should be noted that item II b) above applies only to assets and derivatives with a defined cross order minimum size. Cross orders for instruments without a defined minimum size will be entered at the best bid or ask rejected in the situation described in II b) above.

For cross orders registered via a master account, volumes relating to III a) and III b) above will be calculated for the trading account instead of the final account.

2. Minimum size and thresholds for cross order registration

The table below lists the minimum lot parameters for registration of cross orders in the markets for equities, equity futures and equity options.

B3 will apply the thresholds shown in the table to assist decision making. In the equity market, thresholds will be calculated on the financial value of total trading volume in the market and asset. In equity futures and options, thresholds will be calculated on the total number of contracts traded in the market. Minimum sizes and thresholds will be reviewed annually.

Table 1: Minimum lots for cross order registration and thresholds

| Asset | Minimum size | Threshold |
|----------------|--------------|-----------------------------|
| Equities | 10,000 | 13% of market, 25% of asset |
| Equity futures | 10,000 | 10% of market |
| Equity options | 20,000 | 20% of market |

2.1 Indicators of market quality and control measures for equities, equity futures and equity options

B3 will monitor the following indicators monthly in order to verify possible impacts on the central order book:

1. Variations in the cost of asset liquidity;
2. Average spread;
3. Average depth (considering top-of-book orders and top three price tiers);
4. Average daily trading value (ADTV);
5. Number and financial volume of orders relating to VWAP/TWAP strategies;
6. Number of orders, number of contracts traded and financial volume of orders placed to correct operational errors;
7. Number of orders, number of contracts traded and financial volume of orders relating to structured transactions;

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- 8.** Profiles of cross order counterparties (e.g. institutional clients and individual investors);
- 9.** Percentage of cross orders executed at top of book;
- 10.** Migration of investors using or not using cross orders;
- 11.** Cross orders per participant (percentage).

In addition, on the tenth of every month or the next business day B3 will issue reports with asset and market quality indicators and thresholds. Indicators 1-4 will be published openly for the markets. Indicators 5-11 will be sent individually to participants in order keep the information confidential. Indicators 1-4 will be published at www.b3.com.br/en_us, Solutions, Platforms, PUMA Trading System, Rules and trading parameters.

Thresholds for the last three months will be monitored monthly, so that the following measures may be taken:

- 1)** If asset or market thresholds are exceeded, B3 will raise the minimum cross order size for the assets or markets concerned by at least 50%;
- 2)** On the day the reports are issued, B3 will publish a notice to the market announcing the measures to be taken. The measures will enter into force on the third business day thereafter;
- 3)** Until the next batch of reports is issued, B3 will use effectiveness tests to verify whether the measures taken have restored thresholds or produced a tendency for the market to do so;

4) In situation 3) above, if B3 concludes that the measures taken were ineffectual, it will apply the cross order minimum size rule to orders executed between the bid and ask, defining minimum size as 50% of that in force for bid/ask spread registration of orders for the asset or market concerned;

5) If the measures taken prove insufficient to return the indicators to previous levels or point to a tendency for this to happen, B3 may implement additional control measures to preserve the integrity of the markets and central book, first obtaining the approval of the Brazilian Securities and Exchange Commission (CVM);

6) The measures described in 1-5 above may also be taken if B3 verifies a deterioration of 10% or more in the following quality indicators from the level prevailing before the cross order minimum size rule was introduced, provided cross orders are found to have caused the deterioration:

- 1.** Variations in the cost of asset liquidity;
- 2.** Average spread;
- 3.** Average depth (considering top-of-book orders and top three price tiers);
- 4.** Average daily trading value (ADTV).

Cross order minimum size will be restored to the value prior to implementation of control measures if the market indicators improve.

Compliance with the rules for cross order registration described in this Circular Letter will be verified in two stages, as follows.

Stage 1, lasting three months from the date on which the new rules take effect

Stage 1 is a period for the market to adapt to the new rules on cross orders.

B3 will issue daily reports (with a five-day lag) to participants listing all the cross orders it considers non-compliant with the criteria for acceptance under the new rules.

Participants will not be required to show that the cross orders in question comply with the rules or justify any non-compliance, but B3 will contact them to understand these cross orders and gather information for use in implementing Stage 2.

Stage 2, starting four months after the new rules take effect

In Stage 2, B3 will issue daily reports (with a five-day lag) to participants listing all the cross orders it considers non-compliant with the criteria for acceptance under the new rules, and noting the factors described below.

Based on the information obtained in Stage 1, B3 will adjust its algorithm so as to accept all cross orders, including those analyzed in Stage 1, in accordance with the preliminary logic to be confirmed and/or supplemented after Stage 1, as follows:

- a)** Transactions via cross orders will be considered equivalent to orders generated by TWAP or VWAP algorithms if they have the same buyer (or buying master account) or seller (or selling master account) for an instrument and trading session in which the sum of the individual quantities exceeds the parameter established by B3;

- b)** Orders relating to structured transactions will be defined as orders meeting the following criteria in the same trading session:
- i.** Forward strategy: purchase or sale of a stock and forward sale or purchase of the same quantity of the stock by the same final investor;
 - ii.** Equity + options strategy: trading in a stock and at least one series of options on the stock by the same final investor, in which case the options do not have to be for the same quantity as the stock;
 - iii.** Options strategy: trading of at least two series of options on the same stock by the same final investor, in which case the different series do not have to be traded in the same quantity;
 - iv.** Equity + futures strategy: purchase or sale of a stock and sale or purchase of the futures contract on the stock or on Ibovespa by the same final investor, in which case the futures do not have to be for the same quantity as the stock;
 - v.** Different futures expirations strategy: trades involving more than one futures contract month on the same underlying by the same final investor, in which case the different contract months do not have to be traded in the same quantity;
 - vi.** Basket or portfolio rebalancing: trades involving more than one instrument, all by the same investor, in which case they do not all have to be either sales or purchases or for the same quantity;
 - vii.** Fund to fund: trades between different funds with the same fund manager and the same master account, or subaccounts of the same master account.

Participants will be responsible for justifying the cases of non-compliance with the cross order rules identified in the report from B3 for any given month not later than the 15th of the following month. In the absence of a reply in this timeframe or if more time is requested and granted by B3, the cross orders listed in the report will be deemed non-compliant.

This stage will be implemented in the fifth month after the new rules take effect and will apply initially to the data for the fourth month.

B3 will analyze the justifications presented by participants and impose any applicable penalties in accordance with its normative documents.

In addition, B3 will monitor cross order volumes per participant, and whenever the percentage of trades deriving from a participant's cross orders rises more than 5% compared with the moving monthly average for the previous 24 months, it will analyze counterparty concentration, own portfolio trading, use of transitory accounts in the participant's name followed by allocation to several investors who do not comply with the minimum size for cross orders defined by B3, and the systematization and recurrence of such trades.

B3 will require the participant to explain any anomalies and, if it concludes that cross orders have been misused, may take the measures it deems necessary, including a warning, determination of a minimum quantity between the best bid and ask for the participant, a fine, and suspension of trading in cross orders, in accordance with B3's normative documents.

Complete definitions of the types of cross orders, as well as any sanctions and penalties applicable in the event of non-compliance with the cross order rules,

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will be available on **June 1, 2022** in B3's Trading Procedures Manual at www.b3.com.br/en_us, Regulation, Regulatory framework, Regulations and manuals, Trading.

Further clarification can be obtained from the Electronic Trading Department by calling +55 11 2565-5020, or by emailing trading@b3.com.br.

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